SMALL BUSINESS ADMINISTRATION PROGRAM REVIEW
(Part 1)

HEARINGS

BEFORE THE

SUBCOMMITTEE ON SBA AND SBIC AUTHORITY,
MINORITY ENTERPRISE AND GENERAL
SMALL BUSINESS PROBLEMS

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

FRESNO, CA, MARCH 22, 1985; LOS ANGELES, CA, MARCH 23, 1985; AND
PORTLAND, OR, MARCH 30, 1985

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SMALL BUSINESS ADMINISTRATION PROGRAM REVIEW

(Part 1)

FRIDAY, MARCH 22, 1985

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON SBA AND SBIC AUTHORITY, MINORITY ENTERPRISE AND GENERAL SMALL BUSINESS PROBLEMS, COMMITTEE ON SMALL BUSINESS,

Fresno, CA.

The subcommittee met, pursuant to notice, at 9 a.m., in the City Council Chambers, Fresno City Hall, 2326 Fresno Street, Fresno, CA, Hon. Esteban Edward Torres (acting chairman of the subcommittee) presiding.

OPENING STATEMENT OF ACTING CHAIRMAN TORRES

Mr. TORRES. Ladies and gentlemen, I would like to bring this hearing to order now. Good morning. Thank you for coming at a very early hour.

I am Congressman Esteban Torres, Member of the House of Representatives, the 34th Congressional District of California, a member of the House Committee on Small Business.

I am pleased to be here in Fresno this morning, along with—well, there was supposed to be one of my colleagues, who, at the last moment, called us and said that he was diverted and could not be here with us today. We will have to join with him tomorrow in subsequent hearings in Los Angeles, Mr. Charles Hayes, also a member of the committee, from the State of Illinois.

Representative Lehman, also a colleague of mine in the House, and Representative Coelho, would have liked to have been with us this morning, but they, too, also have commitments in their districts.

I have a statement from Representative Coelho, and without objection, I'm going to enter that into the record.

OPENING STATEMENT OF HON. TONY COELHO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

I appreciate the opportunity to voice my concerns about the proposed elimination of the Small Business Administration. I would have liked to have been here in person today, but it so happens that I am hosting a Defense Procurement Workshop today in Merced to bring small businesses in contact with the Department of Defense.

I feel it is appropriate that the Small Business Committee held a field hearing in Fresno, for I have always found the programs and the staff of the SBA in Fresno particularly helpful. Last year the Fresno District Office approved 334 loans to small businesses totaling over $53 million. This was a 139-percent increase over the loan volume for 1983. The increase is the result of a rise in demand by small business, many of whom would not have been able to obtain credit elsewhere, for increased financial assistance. In the 15 counties that make up the Fresno District, a total of 3,952 jobs were created or retained due to small businesses receiving SBA guaranteed loans. Furthermore, one job was created or retained for every $13,600 in SBA guaranteed loans in the Fresno District Office. Since the SBA loss rate on guaranteed loans is slightly less than 5 percent, the actual cost to taxpayers is approximately $683, or less than one-tenth what the Pentagon pays for a coffee brewer.

I applaud the idea that those who aren't necessarily judged credit worthy by financial institutions can still obtain loan money to start or improve a business. A recent General Accounting Office survey of 8,900 commercial banks showed that up to 40 percent of long-term lending to small concerns had an SBA guarantee. This long-term credit is critical for the survival of many small businesses which without the money may face bankruptcy—dampening our economy, and swelling our already high unemployment rolls in the Valley. It is also prudent, I believe, to look at the savings Mr. Stockman claims can be achieved through the elimination of the SBA. Thirty-four percent of the Office of Management and Budget's $5.3 billion "savings" is achieved by selling SBA's loan portfolio at 19 cents on a dollar. If allowed to service these loans over their lifetimes, SBA would collect at least 80 cents on the dollar. Thus, OMB's elimination of SBA would cost the taxpayers $7.3 billion.

The Small Business Institute at Fresno State is another program funded by SBA that has helped many small businesses in the Valley. At each of the over 550 SBI's located on campuses across the Nation, senior and graduate students at schools of business administration and their faculty advisers, provide onsite management counseling. By providing management assistance and counseling to small businesses, the program not only helps those businesses in need of assistance, but also provides practical experience to budding student entrepreneurs. In 1984 alone, over 2,300 people were assisted at the Small Business Institute at Fresno and over 193,000 were assisted nationwide. I personally have received many letters and calls from constituents concerned about the possible elimination of the Small Business Institute at Fresno State. Surveys have found that 90 percent of all business failures result from bad management. Is it a wise investment in our future to eliminate one of the largest providers of management assistance in our country? I do not believe it is.

Two other programs that were important to the residents of Coalinga after the May 1983 earthquake, are the Physical Disaster Business Loans and the Disaster Loans for Home and Personal Property. Though there were some problems with the high interest rates on some of the loans, corrective legislation was passed in Congress and the program administered critical relief for those who suffered from the earthquake. There was a total of 88 business loans for $5,460 million and a total of 260 home loans for $3,457 million. Without the SBA assistance, the residents of Coalinga would have had to face private sector interest rates that are much too high for the average citizen. With the help of SBA, the community has rebuilt itself and is striving to become prosperous again. To take away this avenue of relief would severely impact future victims of physical disasters and I urge that the committee do everything it can to ensure it remain an integral part of the Small Business Administration.

The proposed elimination of the SBA is one in a series of irresponsible proposals by the Reagan administration to shift sources of government expenditure into the Pentagon, where cost-effectiveness and responsible management aren't exactly buzzwords. The SBA programs are vital for both the Valley and the Nation and I'm delighted to have had the opportunity to contribute to the public discussion on these issues. I commend Congressman Torres and the chairman of the Small Business Committee, Congressman Mitchell, for having a public discussion of these critical issues.

SMALL BUSINESS ADMINISTRATION

Program Activity—California

	Fiscal year 1983		Fiscal year 1984	
	Number	Amount	Number	Amount
Loan approvals, general business	1,474	$220,214,869	2,024	$326,848,681
Direct and IP	174	12,295,600	140	9,537,600

SMALL BUSINESS ADMINISTRATION—Continued

Program Activity—California

	Fiscal year 1983		Fiscal year 1984	
	Number	Amount	Number	Amount
Guaranteed	1,300	207,919,269	884	317,311,081
Economic opportunity	58	3,839,790	63	4,236,971
Direct and IP	38	2,465,500	30	1,862,400
Guaranteed	20	1,374,290	38	2,374,571
Handicapped	14	1,278,000	13	1,167,000
Direct and IP	14	1,278,000	12	1,032,000
Guaranteed			1	135,000
Energy	9	1,426,995	3	414,500
Direct and IP	1	60,000		
Guaranteed	8	1,366,995	3	414,500
Veterans	4	245,000	18	1,449,000
Direct and IP	4	245,000	18	1,449,000
Development company	175	42,770,667	208	56,735,608
502 guaranteed	41	9,499,667	55	15,911,028
503 guaranteed	134	33,271,000	153	40,824,580
Disaster loans	4,753	75,001,500	484	14,179,100
Home	3,822	45,810,000	304	4,171,700
Business	931	29,191,500	178	9,880,300
Farm			2	127,100
Investment co. fin	625	91,510,351	719	94,854,389
MESBIC's	126	11,456,990	204	15,705,939
SBIC's	499	80,053,361	515	79,148,450
Surety bonds	164	14,483,472	335	28,216,620
Pollution bonds	2	2,405,000		
8(a) contracts	500	366,624,030	547	421,332,376
SBDC contracts				
Total counseled	18,467		21,326	
SBDC counseled [1]				
Total trained	36,629		35,412	
SBDC trained [1]				
Total employment	296		318	
Salaries and expenses (inc. dis. asst.)		10,538,078		11,471,036

[1] SBDC numbers are also included in total numbers.

Note: All outyear projections of the agency are prepared on a nationwide basis, and are not available by individual State.

Mr. **Torres**. I have also with me today, the general counsel of the House Committee on Small Business, Mr. Tom Powers, on my left, and a staff assistant to the committee on my right, Joe Sobota.

Why are we here, ladies and gentlemen? Well, as many of you know, the President has proposed the elimination of the Small Business Administration. Clearly, all of the financial assistance programs would be repealed, outright repealed. A few of SBA's programs, such as procurement assistance, innovation and research, minority small business assistance, aggregacy issues, and the service core of retired executives, known as SCORE, would be transferred to the Commerce Department.

Such a transfer, however, is merely the prelude, if you will, to eliminating these programs also as the Commerce Department represents big business and certainly does not want to be bothered with the transfer of additional functions. I am sure it would be only a question of when these transferred functions would somehow drift out of sight in the administration's future budget requests. Only this week, the Secretary of Commerce, Mr. Malcolm Baldrige, announced that the administration would not be submitting legislation this year requesting that the Department of Commerce be renamed as the Department of Trade, and functions unrelated to exports be eliminated.

How ironic that on the one hand, the administration is proposing, for example, to move SBA functions of minority assistance and procurement assistance to the Department of Commerce, and, yet, at the same time, they are considering eliminating similar functions in the same department.

The Small Business Committee of the House of Representatives, on which Mr. Hayes and I serve, is responsible for considering the President's proposal to abolish SBA, and submitting our recommendations for consideration, and a vote by the entire membership of the House of Representatives. As a part of the consideration, the committee will be holding 10 hearings, both in Washington, DC, and in various cities across this Nation. I am pleased to tell you, ladies and gentlemen, that Fresno is the first of these hearings, and subsequent to this, we will have them in various cities across the United States. Tomorrow, in Los Angeles, later on in Houston, Chicago, Philadelphia, and Washington, DC, as I mentioned, and one other city.

At these hearings, we will be seeking the views of small businesses which have participated in SBA's programs. The views and recommendations from those who actually have received help from the agency are very important to us, as they supply a firsthand knowledge of the effectiveness of the program, and their worth as an expenditure of tax revenues.

Today, in Fresno, right here, we will be concentrating on the Direct and Guaranteed Business Loan Program, and programs that supply capital to the private sector in partnership with SBA under two additional programs. The so-called 503 Development Company Program, through which SBA can provide up to half of the capital needed for real estate and fixed assets, with the other half being supplied by local financial institutions, and the Small Business Investment Company Program known as SBIC, through which private companies licensed by SBA use their own and Government-guaranteed funds to provide long-term debt or equity capital for small businesses.

Tomorrow, we travel to Los Angeles to receive additional information and testimony on the Regular Business Loan Program, the Nonphysical Disaster Loan Program which provides capital needed by small businesses which are required to meet pollution standards or comply with other Federal Laws, and the Surety Bond Guaranty Program which guarantees a surety against loss incurred due to the failure of a small business contractor to perform a contract.

Future hearings will concentrate upon other SBA programs, such as the Pollution Control Bond Guarantees Program, the Physical Disaster Loan Program which helps victims of floods and other natural disasters, minority assistance, especially through the section 8(a) program, procurement assistance, and management assistance, particularly through the Small Business Development Center Program.

I would like to also point out to you, ladies and gentlemen, that President Reagan's administration frequently claims that SBA helps only some 21,000 small businesses per year. I repeat, 21,000 small businesses per year. This is true, if all you count are the regular business direct and guaranteed loans, but it ignores the—listen to me, it ignores the 14,000 disaster victims, the almost 4,000 who receive equity capital through the SBIC Program, the 7,000 who receive surety bond guarantees, the 5,000 who participate in the section 8(a) program, the 210,000 who receive counseling, and the 380,000 who receive training every year through SBA.

So, in its totality, it certainly is much more than just 21,000 businesses. Moreover, it seems strange that over the years the Office of Management and Budget, which has insisted that the SBA programs be very limited, now points to the very low numbers as showing a lack of impact.

Ladies and gentlemen, in conclusion, I want to point out the shortsightedness of the President's proposal to eliminate SBA, which I do not believe is fairly well known. Due to its loanmaking activities, the agency has a portfolio of loans of almost $10 billion, $10 billion. The President has proposed to sell these loans to improve cash flow. This is nothing more than a conversion of assets, and is being done at a very expensive price. According to testimony from OMB Director David Stockman, the administration's budget proposal includes the sale of $9.8 billion in loan assets over 4 years, but the projected yield is only $1.83 billion. Thus, we would expect to receive less than 19 cents on the dollar, and this would create a windfall for investors under the guise of budget austerity. This is totally unnecessary, and I would note that in the past, OMB opposed a proposal to sell similar parts of the portfolio, even though we were projecting that we might obtain at least triple or higher yields than those projected by Mr. Stockman.

Again, I want to state that we appreciate the appearances by small businesses, by persons who are here today. I recognize that to many of you, it's a hardship to have to give up a day or come from a long distance to be with us, but I want to assure you that this is the only way that your representatives in Congress can monitor, can understand and listen to the views of you, the people, who have benefited from these programs. It is then our responsibility to go back to the Committee on Small Business, to address your testimony to those Members of the House of Representatives on the floor in debate, and to argue the fact that we do not believe that the Small Business Administration should be eliminated as President Reagan has proposed.

Thank you very much.

Having made that statement, I would like to now hear from our local assemblyman here, who is with us this morning, the Honorable Jim Costa, who represents the 30th District in the State of California. Mr. Costa, I would entertain any statement that you have for us for the record.

TESTIMONY OF JIM COSTA, ASSEMBLYMAN, 30TH DISTRICT, STATE OF CALIFORNIA

Mr. Costa. Thank you very much, Mr. Chairman.

I want to first welcome you and the subcommittee to Fresno, and take this time to recognize the importance of the contributions that have been made by the Small Business Administration, and the effect in this area.

My assembly district encompasses 4 out of the 15 counties that the Fresno district represents, and as you are aware, SBA has provided the Fresno area as well as the Central Valley with needed funds that small businesses would not have without participation. They have provided growth in all various local industries.

On a much larger schedule, SBA loans have provided to the economic and social development in a very positive way to the entire State of California.

I believe that the proposed SBA cuts this year by the Reagan administration are outrageous, unfounded, and, in my opinion, will bring about tremendous economic and social uncertainty throughout this country, if they are approved by this Congress.

The proposed cuts would prove extremely detrimental to the economy of the San Joaquin Valley under a time in which, because of our natural farm-based economy, things are already at a very depressed stage, combined with these cuts, it is my feeling that the Fresno district office area would find themselves in a situation that would, in effect, have provided promises that they had made to small businesses, which they would probably be unable to maintain or keep.

During the fiscal year 1984 loans, the Fresno district office approved 334 loans to small businesses, that totaled over $53 million, equating to a 139-percent increase in the loan volume over fiscal year 1983.

The increase in this loan assistance has provided positive growth and development to our area. The panels that you have formulated today that will testify before your subcommittee are proof positive of the tremendous, I think, positive economic effect that it has had on the small businesses in our area.

People testifying on your various panels will substantiate to the amount of employment they have been able to provide for various committees, to the amount of taxes and receipts that they have been able to provide to those communities, all of the positive outgrowth that has come from those SBA loans, and by administering these loans to the small businesses, the SBA has provided economic incentives for those people that are willing to try to fulfill the American dream.

Many of our small businesses provided employment for our youth, our elderly, women and minorities, and Fresno County, alone, the SBA lent a total of $8.9 million to small businesses in fiscal year 1984, which helped for the development of 643 jobs in our area.

It's ironic to note that President Reagan often talks about the amount of new jobs increased on a monthly basis, but, yet, he doesn't take into account that, in fact, many of those increases of jobs occurred as a result of programs such that the SBA administers and, which, without those programs, those jobs would not be available.

By increasing employment, the Fresno district office of the SBA has decreased the amount of unemployment benefits as well as welfare recipients, and they go hand in hand and people should be aware of that fact.

They have also, more importantly, in my opinion, restored pride and dignity to those people who have suffered from social and economic disparity in our society.

It is my feeling that we must continue to help the citizens of the Central Valley as well as the citizens of California, and the rest of the country. The proposed budget cuts unquestionably will hurt small businesses and its residing citizens in a very harmful way.

You know, as I conclude, I think about the history of our Government over the last 200 years, and the history of involvement in providing, government providing people an ability to bootstrap themselves to enter upon the job market, to get a piece of the rock, the fire to start their business, and to expand, to fulfill that aspect of the American dream.

We have had the history and the Homestead Act in the 1800's where government allowed people to come and settle in areas that were unsettled and provide a 160 acres for that purpose to begin farming. We had that start in the thirties, with the formulation of the Federal Housing Administration [FHA], and the formulation of programs that encouraged housing and people to get their piece of the rock.

We have had numerous other examples, that it seems ironic that a President who likes to reflect upon the past and the greatness of government programs that have benefited this country, in fact, is taking the very action himself to destroy that ability of government to provide that helping hand for people who would not have it otherwise.

I urge you, as a representative of the State of California, that the Congress must stop these damaging budget cuts before they stop America's ability to hope and to realize the dream which has set us apart from the rest of the world and had set as the standards for the rest of the world to aspire to become.

It is the worthwhile programs that have been administered under SBA that I feel are, frankly, the hallmark of many good things that have occurred in the past.

President Reagan's cuts in the SBA program, the elimination of the program, in my opinion, is simply penny-wise and pound-foolish. They do not speak to the larger question of the deficit, and if he thinks that he is going to balance the budget by the elimination of these programs, I think that, frankly, he needs some budget counselling of a greater degree.

Thank you very much, Mr. Chairman, for the time to testify, and I wish the committee well in their stay here in Fresno today, and hope that the information provided by some very effective businessmen in our area will add ammunition to the information you need to ensure that these programs are maintained.

Mr. TORRES. Thank you very much, Assemblyman Costa.

I want to echo your sentiments about our stay here in Fresno. Thus far, the committee and its staff have been immensely helped by your city, the city leaders and yourself. Your presence here today is an acknowledgement of your concern for this city, for this area, for this program, and your statements for the record will be entered, and I appreciate your being here today.

Mr. COSTA. Well, we thank you very much, and we are very happy that Fresno was chosen for the first site of these hearings.

Fresno, as you may be aware, is the home of the Bulldogs, the Red Wave, and our generosity and our hospitality is warm and friendly.

That will end when we go to UCLA Saturday evening, and we take on the Bruins, and eliminate them from the NIT championship.

But, we do want you to feel welcome while you are here in Fresno.

Mr. TORRES. Thank you, sir. Thank you.

We are now ready to begin what is considered the first part of our testimony here, and we are going to do this by way of listening to panels as opposed to listening to a specific individual.

I am going to call forth for our first panel, to join us up here at the table, four individuals whom I will call by name. I hope that they are here this morning, and, please, sit down at the table, be sure that you attach this microphone to your chest here so that we can, in fact, allow the recorder to take your statement.

Could we please have Mr. Fred Ruiz of Ruiz Food Products, join us here? Mr. Ruiz? Mr. Walter L. Hood, representing Hood Brothers Pallets and Bins, Mrs. Dorothy J. Gerhardt of Gerhardt Enterprises, and Mr. Thomas E. Moore of Moore's Quality Galvanizing.

Ladies and gentlemen, please join us.

Who is absent? Mr. Hood is not here? Perhaps he will join us at a later moment.

Well, ladies and gentlemen, I very much welcome this opportunity, as you've heard my opening statement, to hear from you directly as to the kinds of experiences, the types of assistance, if you will, that the SBA has provided your enterprises with.

I know Mr. Ruiz, who I recall being in Washington last year, was it not, Mr. Ruiz? You were at the White House in the company of your father, where you received the Outstanding Small Business Man of the Year Award. President Reagan conferred that upon you and your father for a commendable and great job that your company had provided in terms of the American dream, as we just heard, providing jobs and affecting in a positive sense the economy of this country.

May we hear from you, first?

TESTIMONY OF FRED RUIZ, RUIZ FOOD PRODUCTS, INC., TULARE, CA

Mr. RUIZ. Yes, sir. I would be glad to offer my comments.

Gentlemen, I am here to encourage you and the President of the United States to continue and to support the Small Business Administration. It is a Government agency that successfully strengthens the very foundation of our country; the small businesses of the United States are and always have been the backbone of the American economy.

Ruiz Food Products is a frozen Mexican food company in the city of Tulare. My father, Louiz Ruiz, and I, started Ruiz Food Products 20 years ago. We started with an idea, a dream, and no money.

During the first 10 years, we built a marginally successful business. We worked hard, made big mistakes, but somehow managed. At the 10th year, we faced a situation created by the U.S. Department of Agriculture, that would have forced us to close our doors.

We operated in a 1,500 square foot processing plant, with 15 employees and sales of $300,000. With the help of the Tulare Local Development Co., the guidance of the National Economic Development Association, and the support of the Farmers State Bank, we secured a $600,000 SBA loan package. With that money, we built an 11,000 square foot plant. Today, Ruiz Food Products is a major contributing force in the local economy.

We are an asset to the community. We employ people of all nationalities and races. We have contributed greatly to our town.

I want to give you facts to take back to the President, to show that the Small Business Administration does more than spend money. The Small Business Administration makes money, it creates jobs, it builds businesses through opportunities, and does, in fact, perpetuate the American dream.

Today, Ruiz Food Products is the following: we are 300 employees strong, we have a modern, efficient 50,000 square foot processing plant, sales will reach $18 million in fiscal 1985. Our payroll will be $3½ million for this year.

For the fiscal year 1985, Ruiz Food Products in the city of Tulare will plow back $19 million, figuring new construction and capital expenditures.

Gentlemen, I ask you to ponder these thoughts. Our payroll taxes this year will exceed the $600,000 SBA loan that we received 10 years ago. I ask what does $3½ million in payroll do for the local economy? Our employees buy homes, cars, groceries, clothing. Consider how many additional jobs that Ruiz Food Products has created through our employees' spending power.

Gentlemen, Ruiz Food Products will spend $7 million on raw materials to produce its products this year. I ask you to consider these additional facts. We will purchase 3 million pounds of beef, 6 million pounds of wheat flour, 1 million pounds of beans, 800,000 pounds of animal and vegetable oil, 500,000 pounds of seeds, 500,000 pounds of corn, 500,000 pounds of tomatoes, onions, potatoes, vegetables, and 200,000 pounds of chicken.

All U.S. products, most of which come from other States.

Keeping all these facts in mind, I ask you to consider what is the return on investment. I have to believe that the President of the United States is getting more than his money's worth.

My dad, myself, and our employees take great pride in our accomplishments. We are the American way of hard work, resourcefulness, pride, and success. The Small Business Administration has played a vital role.

I ask that you not get caught in the percentage game. I ask that you weigh each success story and multiply its benefits created for other businesses and their communities.

Each success story created by the SBA pays back to the American people 100 times what it has loaned. The SBA must continue.

Thank you very much.

TESTIMONY OF DOROTHY J. GERHARDT, VICE PRESIDENT, GERHARDT ENTERPRISES, INC., FRESNO, CA

Ms. GERHARDT. Well, we're quite a bit smaller than Mr. Ruiz, but we, too, started like he did, with no money in 1977, and five people, and an old rundown building, where we stayed for 5 years.

And, through the SBA loans, we were able to move from this rundown, three small rooms and one small rest room in a wood building to a very beautiful 2,000 square foot office building, containing two private offices, an accounting office, a main office, a display room, waiting room, two restrooms, and a conference room. At the time we moved, we had 19 people working for us in the office, tire, and the trailer departments. In addition to the office building, we added a 5,000 square foot warehouse and a service facility that we use for changing tires.

My husband works on race cars, developing, repairing, or restoring, and I have a grandson that is trained working with him, who has moved on to the Indy cars and is now training another young man. I am vice president of Gerhardt Enterprises.

Our oldest son Don is in charge of the trailer department. By our being able to move the tires out of this building, he now has 14 men working for him.

Our next son Rick is in charge of the tire department, and the racing division. He has two people at the time working for him. He now has an inside salesman and an outside salesman, a racing tire salesman, an accessory salesman. We just added two shippers, and another pickup and delivery boy, and four—we have four people mounting and dismounting tires and doing service work for us.

We employ all nationalities and all ages. Our oldest grandson builds race car starters for the Indy racing cars. We have an office manager and accounting manager and I work in the accounting office.

We support all the local businesses. We have done most all our stuff locally, and they, in turn, support us.

As you can see, we really needed to make the change. We have people, but no place to put them. With the SBA, we were able to do so. We are small but we are still growing, and we really appreciate the service the SBA has done for us.

Mr. TORRES. Thank you.

Let me ask you, initially, when you started out with five people and three rooms, as you said, in this smaller building, what was your initial loan from the SBA that helped you get off the ground?

Ms. GERHARDT. At that time, we didn't have a SBA loan.

Mr. TORRES. I see.

Ms. GERHARDT. We just kept working.

Mr. TORRES. But, at some point, did you apply for it?

Ms. GERHARDT. Yes.

Mr. TORRES. What was that amount?

Ms. GERHARDT. $121,000.

Mr. TORRES. $121,000. That was your one and only——

Ms. GERHARDT. Yes.

Mr. TORRES. You've paid that off, I would assume?

Ms. GERHARDT. We're working on it.

Mr. TORRES. You're working on it.

Ms. **Gerhardt**. We just moved last year.

Mr. **Torres**. I see. Let me ask you a question. Do you believe that the Government has received a fair return on its dollar, would you say, for the kind of financial assistance that it gave you?

Ms. **Gerhardt**. Oh, yes.

TESTIMONY OF THOMAS E. MOORE, MOORE'S QUALITY GALVANIZING, MADERA, CA

Mr. **Moore**. Mr. Chairman, I am a youngster, not in age, but in the length of time we've been in business. We have been in operation 9 months yesterday.

We are in the galvanizing business, which is a process of putting a zinc coating on steel products.

Mr. **Torres**. Mr. Moore, use the microphone.

Mr. **Moore**. Oh, I'm sorry. Is that better?

Mr. **Torres**. Does it have a little tape stream with it?

Mr. **Moore**. Well, one does and one does not.

Mr. **Torres**. Could you hold it in your hand then?

Mr. **Moore**. Yes.

Mr. **Torres**. That's better.

Mr. **Moore**. There are less than 500 companies in the United States that do this process. My previous background was in a family-owned trucking business for all of my life, since I was a child, and due to the fact I wanted to leave the trucking business and do something else, I came upon this galvanizing process, and the only connection between the two businesses is that they are both service oriented.

So, in March 1983, my wife and I, which is my only partner, decided to find out if there was enough need for galvanizing in the central valley to justify the plant. We did our homework, and we found that there was a substantial need for galvanizing.

So, at that time, we started putting some budget projections and construction costs together to determine our loan needs. The final financial needs were in the neighborhood of $1 million. My wife and I were both fully committed to this project, and without any reservations whatsoever.

However, we were only able to provide approximately 40 percent of our cash and equity needs. While this seems like an adequate amount under most conditions, in our case, it was not, due to the unique nature of this business, being fairly uncommon.

Banks were leery because of their unfamiliarity with the business, and were not willing to put that much faith in us, even though we had this 40 percent.

It was suggested that we pursue an SBA loan. This we did, and we went through the process, and obviously we got the loan and that is why we are here today.

I am happy to say that 1 year ago today, I am sorry, tomorrow, March 23, we broke ground for our plant, and due to the, again, unique nature of the business, existing facilities that may have been available for rent were unacceptable. This requires a very special type of building. So, we had to build it from the ground up.

Mr. **Torres**. Excuse me for interrupting, Mr. Moore.

Just very quickly tell me the uniqueness of your business. You keep saying that it is an extraordinarly unique business.

Mr. MOORE. Well, just because—for one thing, there are only 500 or so in the United States. So, therefore, there are not a lot of us, if you spread those around the 48 States.

Mr. TORRES. You are basically galvanized metal?

Mr. MOORE. Yes. Take a steel product that somebody has made, possibly a tank, a ladder, hand railing, things of that nature, and they want protection on that steel.

So, we coat it with zinc.

Mr. TORRES. And, it requires, I suppose, acid baths and flushing?

Mr. MOORE. Yes. Acid baths. We have a furnace that keeps this zinc melted at 840° constantly all the time. There are over 200,000 pounds of zinc in that kettle melting. So, it requires that much zinc to operate.

Our utility bill for gas alone is in the neighborhood of $11,000 a month.

Mr. TORRES. $11,000 a month?

Mr. MOORE. That's for gas. Electric is approximately $2,000.

So, it is a very exciting business.

Mr. TORRES. You are a good PG&E customer.

Mr. MOORE. Yes.

Mr. TORRES. Please continue.

Mr. MOORE. Let's see. OK. Anyway, 1 year ago tomorrow, we broke ground, and in a matter of 90 days, 3 months, we had a plant built, dirt on up to the top, all equipment in, ready to go on June 21, 1984.

Therefore, as of yesterday, we have been in business 9 months. In the 9 months we have operated, we are now in the black, have never missed a payment to anyone, including our lenders, suppliers, or our labor and our tax liabilities.

We are a contributing member of the Madera community by way of taxes we pay and payroll of about $40,000 per month and, of course, our withholding taxes are in the range of, I think, around $7,000 per month for FICA, and so forth.

Of course, our employees spend this money locally, and the first 2 months of our operations, we started with 1 shift of approximately 14 people. It requires that many to fire this plant up.

Within 60 days, we were running two shifts. In many cases, in the neighborhood of 50 hours per week for each shift. After 60 days of operation, we are still running two shifts approximately 50 hours for each shift, and we are looking forward to continuing that.

Mr. TORRES. And, your total of manpower today is——

Mr. MOORE. My total manpower is 25.

Mr. TORRES. Twenty-five?

Mr. MOORE. Yes, sir; and, of these 25 people, with the exception of 1 person, which is our general superintendent, they were all hired through the local California unemployment office. They came to us without jobs and most without skills.

We hired them, trained them, and made a viable workforce out of them. There are now 24 fewer families in the Madera area which are no longer dependent on the county or State for support.

Obviously, we did not go to all this effort and assume all these risks just so we could put people to work. We did it because we have great faith in God, this country, and ourselves to make this business a profitable success.

Small business people make and keep this country strong. Those who fail to plan, plan to fail, and many people fall into this category. But, I believe the vast majority, particularly those who are willing to provide their own funds, have done their planning and will succeed.

If large corporations are worthy of Government support and loans in order to stay solvent, then why not help mom and pop down on the corner? We're all Americans, and the only difference is the size of our company.

I think the SBA is a great program. It's badly needed by small business people. A small businessman who has good ideas, and just needs support and assistance. I hope this program doesn't end, and I want to personally thank SBA for their help in fulfilling our dream and desire that we have.

Mr. TORRES. Thank you, Mr. Moore.

Let me ask you, given your experience and given, as you said, the risks that you encountered in applying to the private sector, the banks, did you feel that most banks are unwilling to finance small businesses that run these kinds of risks, at least as they perceive them?

Mr. MOORE. In many cases, the banks indicated that 40-percent equity was not enough generally to secure a loan. Had I been wanting to go in and start a new trucking business, in which I had 25 years plus experience, I feel I could have received all the funds I wanted.

Mr. TORRES. But, the very nature of your business, the galvanizing——

Mr. MOORE. Plus my lack of personal experience with that business, they were very cautious.

Mr. TORRES. But, once you applied to the SBA, made an SBA application, and you received an SBA guarantee, did you then go back to those same banks, or was it an SBA direct loan?

Mr. MOORE. No; we are still working through the original bank that we started with. The reasons that we went to SBA, because the bank was somewhat—they wanted to, but, yet, they were somewhat nervous and the bank, I think, wanted some support——

Mr. TORRES. A guarantee.

Mr. MOORE. Yes.

Mr. TORRES. And, that you feel, then, was the basis or the incentive to provide you the capital to proceed?

Mr. MOORE. Yes, sir.

Mr. TORRES. Thank you.

Mr. Powers would you have any questions or anything at this point of any of the three panelists here?

Mr. POWERS. Do we have anything on the record from Mr. Moore on the amount of the financing? If we did, I missed it.

Mr. TORRES. Can you tell us initially what your financial request was?

Mr. MOORE. Our total loan needs were in the neighborhood of $1 million. My wife and myself put up 20 percent of that. A little better than 20 percent, and the 503 Program financed, I believe it was 50 percent of our building costs, and about 60 percent or so of our operating capital requirements, through another SBA loan.

So, we're working with two SBA programs, 503, and then the other SBA program.

Mr. **Torres**. And, starting from scratch, as you might say in the vernacular, I guess you and your wife have been able to, in 9 months, create a business that now employs 25 people in the local area?

Mr. **Moore**. Yes, sir.

Mr. **Torres**. Very commendable.

Well, thank you, Mr. Moore, for your excellent testimony.

Mr. Ruiz, we very much appreciate that you were able to come here this morning. As I said, I know that you have other business to attend to, but this is important for the hearings that we're conducting across the country, to hear from people like yourselves, who have been able to start with a dream, as you indicated, with very little. With a lot of tough work, a lot of planning, and the SBA support behind you, you have been able to leverage those ideas and those hopes into what we can see here just by your initial testimony—the kind of productivity and the kind of job creation that we like to see happening in this country.

I want to thank you very much, and unless you have some closing statements, I would like to excuse you. Mr. Ruiz, anything?

Mr. **Ruiz**. Well, I would like to comment on one point, and that point is in the case of the business world, small business has a very difficult time dealing with bankers, and the bankers that I am referring to are the large banks.

SBA does fill a void, that void being that small banks become a very viable part of the SBA program because they offer the small banks the security they need to work with the small companies.

But, I know when we originally applied for our loan, we went to four major banks in the city of Tulare. The problems that we faced were not only with the local managers, but the loans have to go to San Francisco or Los Angeles. You are dealing with people that really—like I said, about facts and figures. Not people that can understand you, can look at you, and can believe in what you can do, can appreciate your potential.

I think it is extremely vital that the SBA and small banks have been able to create a program that, in today's world, fills this void for small businesses.

That is my only comment.

Mr. **Torres**. Thank you. Very good. Thank you, Mr. Ruiz.

Ms. Gerhardt, is there something additional you want to tell us about?

Ms. **Gerhardt**. I am not very good at words, Mr. Torres, but I went to three different banks with which I have done business in town prior to the SBA loan. There was one bank that I had not done business with, a Fresno bank, and I could not get a loan. They were not too sure about it, because we were too diversified. We had too many things going, and, so, I went to the SBA, and I could not believe the kindness that they had plus the knowledge. First, they came out and they laid everything on the table, just as it was, and I thought no, there is something wrong, either this man does not know what he is doing or there is something wrong.

But, I followed up on it, and he did everything that he said that he would do, and without the SBA, we would not be where we are today.

Mr. **Torres**. Beyond your initial capital needs, did you receive any technical assistance?

Ms. **Gerhardt**. Yes.

Mr. **Torres**. You have received technical assistance?

Ms. **Gerhardt**. They have helped us in every way.

Mr. **Torres**. Have SBA people or others come in to assist you in management?

Ms. **Gerhardt**. Oh, no, not that way.

Mr. **Torres**. In which way?

Ms. **Gerhardt**. They just told me—they helped me to get the funds, they helped me to fill out the forms, they helped me to do anything that I needed to have done to get the SBA loan.

Mr. **Torres**. They helped you package your application?

Ms. **Gerhardt**. Yes.

Mr. **Torres**. How about you, Mr. Ruiz? Have you received any technical assistance, any consultations from the various groups that SBA participates with?

Mr. **Ruiz**. Yes; my philosophy is that, you know, you're never too old to learn. There's always something that you have to do to improve yourself, but the SBA, at various times, at our request, and at their—through their input, have made available to us, Ruiz Food Products, people with experience in accounting, people experienced in business, to help us get a better understanding of accounting methods.

What was critical in our program, I felt, was the pro forma balance sheet that we set up in creating our projections for the upcoming 2, 3, and 4 years. This gave us a very strong insight into exactly what we were going to get into.

We had a clearer understanding of what was required, and the demands that were going to be made of us. So, on that basis, yes, we have received a lot of help, and it's been very much appreciated.

I give it a lot of credit for the educational experience that they gave us.

Mr. **Torres**. Very good.

Mr. Moore, as a junior partner here, have you received any type, have you applied for any type of technical assistance or——

Mr. **Moore**. No; I have not, Mr. Chairman. However, I am aware, have been aware, since the beginning, that SBA was available for any type of assistance I may need, and that has been a good feeling to have. Hopefully, I will not need any expert advice or anything of that nature, but should that day come when I do, I know I can get help there and it will be available, if I ask.

I am not going to bother them with frivolous requests, but if something major should develop that would create a problem for us, we would definitely go to SBA people for guidance and assistance.

One thing I would like to comment on, I think the three of us at the table are unanimous in some respects as to the problems that small business people have with banks, and I do realize that is not the purpose of the hearing, but banks only want to lend money to people who do not need money, and the guy that needs the money cannot get a loan.

If you have it, they will lend you a lot more, but you do not want it if you have it. So.

Mr. TORRES. Well, thank you. All three of you have been most kind to be here with us today, and I will now excuse you.

[Mr. Moore's prepared statement follows:]

PREPARED STATEMENT OF THOMAS E. MOORE, MOORE'S QUALITY GALVANIZING, MADERA, CA

Our business is galvanizing fabricated steel products. Galvanizing is a unique and fairly uncommon type of business. There are less than 500 companies in the United States. My previous background was in a family-owned trucking business. The only common denominator is that both of these businesses are service oriented.

In March of 1983, we decided to find out if there was enough need for galvanizing in our central valley to justify a galvanizing plant. This was done and the results were positive. At that time, we started putting some budget projections and construction costs together to determine our loan needs. Although my wife and I were fully committed to this, and without any reservation, we were only able to provide about 40 percent of our cash needs. While this seems like an adequate amount under most conditions, in our case, it wasn't. Banks were leery because they were unfamiliar with this business and weren't willing to put that much faith in us, even though we could provide about 40 percent of the cash and equity needed. It was suggested we pursue an SBA loan. This we did and got the necessary loans.

I am happy to say that 1 year ago tomorrow we broke ground for our plant, and after 3 months of construction, we opened. In the 9 months we have operated, we are now in the black and have never missed a payment to anyone, including our lenders, suppliers, labor, and taxes.

We are a contributing member of the Madera community by way of taxes we pay and payroll. All 25 of our employees with the exception of our general superintendent were hired through the local California unemployment office. They came to us without jobs and mostly without skills. We hired them and trained them into a viable work force. There are now 24 fewer families in the Madera area which are no longer dependent on the county or State for support.

Obviously we didn't go to all this effort and assume all these risks just so we could put people to work. We did it because we have great faith in God, this country and ourselves to make this business a profitable success. Small business people make and keep this country strong. Those who fail to plan, plan to fail, and many people fall into this category. But I believe the vast majority, particularly those who are willing to provide all the funds they have, have done their planning and they will succeed. If large corporations are worthy of Government support and loans, in order to stay solvent, then why not help mom and pop down on the corner. We are all Americans and the only difference is the size of our company. I will end by saying I think SBA is a great program and badly needed for the small man who has good ideas but needs support and help. I, for one, hope this program doesn't end. I personally want to thank SBA for their help and for having faith in me—my dreams have been fulfilled.

Mr. TORRES. Thank you, Ms. Gerhardt. Thank you, Mr. Ruiz. My regards to your father.

Mr. TORRES. The first panel that we heard, the first three persons, was the panel discussing development company financing. All of us can understand the process they went through and how they benefited from these particular programs.

The next panel we will hear from will be the panel directed towards business loan guarantees, and I would like to invite to the table Mr. Dieter Dubberke of Pioneer Market. Sir, would you join us?

Mr. Sam Ganimian, from Hye Quality Bakery. Is Mr. Ganimian here? Mr. Okamoto, from Motion Designs, Inc., Mr. Cornelius Van Beek, Thermo King Fresno, and Mr. Bergthold, Reedly Opera House.

Please, gentlemen, join us.

All right. Fine. We have two persons that have not answered the rollcall here. They may have been inadvertently delayed. If they should show up here, we will ask them to join us up here at the table.

Gentlemen, you saw the previous procedures that we went through, a statement by yourselves. Let me ask you to make sure that these microphones are attached to your lapel for the facility of our recorder.

I would ask you to proceed with about a 10-minute statement relative to the nature of your enterprise, and, specifically, the issue at hand, the business loan guarantees. After that, we will simply just ask you some questions, and you are free, of course, to make comments.

We will start with Mr. Dubberke, is it?

Mr. DUBBERKE. Yes.

Mr. TORRES. Mr. Dubberke, would you please give us your statement?

TESTIMONY OF DIETER H. DUBBERKE, PIONEER MARKET, MARIPOSA, CA

Mr. DUBBERKE. Yes; my name is Dieter H. Dubberke, and I took early retirement from Safeway Stores in southern California. In 1978, I left the company, and I started a business of my own.

Then, I moved to Mariposa County, at which time, I opened or leased a 2,000-square-foot building, and it was a minimart type of store, business. I have been in business approximately 7 years, and throughout which time, I expanded four or five times.

My latest venture was going into a 28,500-square-foot building, an extensive-type supermarket, and I found it very difficult to find financing through the private business institutions.

I was told, as I just heard a few minutes ago, that the money was being lent to individuals who did not need the money, and I felt that was exactly my situation. I was told by numerous banks, in this case, two or three banks, that my financing at that time was too risky, and my equity was not built up to a suitable type that the banks were requiring at this time.

Last year, approximately in June, I wrote a letter to Mr. Tony Coelho, and within a 45-day period, I received a substantial sum to get me started in a small type of a shopping mall. This, in turn, generated approximately $3 million to Mariposa County, which is, as of today, one of the largest ventures in Mariposa County.

The new store, I must say, has only been open 3 days, and my—so, it is my birthday in business today, but I have to say that my first 2 days in business exceeded all my expectations.

What I am saying is the amount of dollar flows that have come in my first and second day is way beyond my projection, and I feel I was very conservative at that time.

So, going back to the SBA loan, I would like to say that had it not been for——

Mr. TORRES. How much was that loan, to begin with?

Mr. **Dubberke**. Approximately $350,000, which generated a large, large amount of other small businesses to combine and they constructed a shopping center.

I have found out that at the time I did have a conventional loan, but comparing that against the SBA loan, I found a 4-percent difference in rating, and the time period was much shorter than what I received from the SBA.

So, because of that, I was able to add extra cost factors into my building, such as—it's called a dual air return. It is a $40,000 project. It guarantees me 25 percent of energy savings, and I would have it paid back on that within 5 years, and I am sitting up there today, up in the mountains, with a store that is equal or much better, I would like to think, than any major supermarket or chain in this country.

I would like to go back to one more thing, saying that it directly reflects the SBA, because I have been turned down by numerous banks, and I was reluctant to continue with a private institution simply because, at that time, the rate last year was up to 20 percent interest that the bankers had asked from me.

And, today, with the SBA, I have a 2½-percent floating rate over prime, and it is a very good loan.

Mr. **Torres**. In other words, after substantial shopping around or loan applications, you went to the SBA as a last resort?

Mr. **Dubberke**. Yes; I did.

Mr. **Torres**. What prompted you to seek SBA assistance?

Mr. **Dubberke**. Well, you know, like most businessmen, small business people, you hear that SBA is very prominent, I would like to think, among—talked about throughout the industry, and the small business people in this community.

But, I was told there were a lot of things attached, and to the contrary, I found out within 45 days, I had my funding, and the reason I went with SBA was because I was told the interest rate would be lower than anywhere else, and that is exactly what I found out.

Mr. **Torres**. The interest rate was lower as opposed to the prevailing market?

Mr. **Dubberke**. Yes; and the equity that I was able to come up with, you might say, accumulated in other inventories and equipment, which I bought over the past 6 years, the banks were skeptical toward me and were skeptical to the SBA individuals, who, in turn, referred me to the Merced County Bank, and who directly placed the funding for this project.

Mr. **Torres**. I see. Tell me, sir, in terms of your endeavor, your enterprise, can you give us an estimate with respect to how many jobs you created?

Mr. **Dubberke**. Additional jobs, I created because of the SBA, I would like to think between 20 jobs in my own store, but it generated numerous other jobs because of this project.

So, I would also like to let you know that the shopping center, the total cost was around $3 million. We hired local contractors, all that we could, and most of all the labor came from Mariposa County, and it was—they are still working for a 9-month period. Not to mention the permanent jobs we have created up there, such as the retail business.

Mr. **Torres**. Do you have any expectations, any projections for enhanced employment, greater employment?

Mr. **Dubberke**. Yes.

Mr. **Torres**. Given—you mentioned in your statement, your success beyond expectations. Do you feel that this possibly could be a factor in providing more jobs?

Mr. **Dubberke**. Very definitely. If this business, my latest venture, the new store, continues to grow I am expecting a 20- to 40-percent increase in business.

Mr. **Torres**. A 20- to 40-percent increase?

Mr. **Dubberke**. So, reflecting this into a job type of category, I would be looking at another additional 10, 15, or 20 people that will have permanent employment.

Mr. **Torres**. Thank you, sir.

We may come back to you as we move along here.

I would like to hear now from Mr.—is this Mr. Okamoto joining us? Please join us, sir. Mr. Van Beek, let us hear from you.

TESTIMONY OF CORNELIUS VAN BEEK, THERMO KING FRESNO, INC., FRESNO, CA

Mr. **Van Beek**. I moved from Los Angeles about 5 years ago. In fact, I was born in Artesia.

Mr. **Torres**. Oh, OK.

Mr. **Van Beek**. I was raised in Paramount, so I am very familiar with your area.

Like Mr. Dubberke, we left the land of congestion and moved up here to the land of opportunity, and have been very successful.

Again, my name is Cornelius Van Beek. Can you hear me?

Mr. **Torres**. I think we can. The reporter can hear you.

Mr. **Van Beek**. My name is Cornelius Van Beek, and I am vice president of Thermo King Fresno, and I was asked to testify today on behalf of the Small Business Administration. And, the main reason I came here is because I wanted to be here for the people who may require the services of the Small Business Administration in the future. They have certainly helped us.

Before discussing the financial conditions in which we sought the services of the SBA, I would like to tell you something about our business. My partner, Norm Nelson, and I are sole stockholders of Thermo King Fresno, Inc.

Mr. **Torres**. Is he here with you today?

Mr. **Van Beek**. No; he is not.

Mr. **Torres**. I see.

Mr. **Van Beek**. We are an authorized dealer for Thermo King Corp., which is a division of Westinghouse Corp. The product we sell is refrigeration units, which you find in any trailer that is about 45 or 48 foot long. You find them on the highways of this country everywhere. Our product is used to maintain the proper temperature for transporting ice cream, milk, meat, poultry, ice, produce, or any other perishable product. In fact, we can cool the load down to a minus 20° temperature. In fact, Ms. Gerhardt and Mr. Ruiz are both customers of ours. Although selling units is an important part of our business, our bread and butter is made by selling the parts and providing service to the customers who own Thermo King units.

Now, this is how Norm and I became involved in the purchase of the dealership. We purchased the dealership a little over a year ago. In fact, our anniversary date is March 1.

Mr. TORRES. This March?

Mr. VAN BEEK. This March.

We purchased our company from an insurance company known as First Far West Services, and we were part of their transportation division, which consisted of about fifteen companies of various trucks and trailers, servicing and truck related dealerships. The decision was made by First Far West to liquidate the transportation division and, for the most part, the dealerships were offered for purchase to the company's general manager. My partner was general manager at the time. He accepted the offer and I was fortunate enough to be offered by Norm the opportunity to join him in the purchase of this dealership. Prior to the purchase, Norm had 10 years experience working for this company, and I had 2 years.

It was agreed between First Far West, the seller, and the two of us to purchase the company's parts inventory, the Thermo King units, the tools, equipment, and trucks, and the approximate dollar value for this purchase was $300,000. Norm and I were going to provide $100,000 cash ourselves, and with the remaining balance to be financed by Wells Fargo Bank, $150,000, and First Far West Services another $50,000. The property in which we were located is leased from a party up in Reno.

Wells Fargo Bank was very interested in keeping us as a customer, and we were provided the financial services when we were previously known by Far West Thermo King and we were owned by First Far West Services. But, to make a long story short, after about 2½ months of negotiating with the bank and getting all our ducks in a row, the bank called us the morning that the loan was to be signed for closing the purchase of the business, they called and pulled out the rug from under us. I have heard the statement today, the banks are very difficult to deal with, and it was a real surprise to us when they indicated everything was pretty clear. Over the phone, they told us the following conditions would have to be met to consummate the deal. We would have to attach second mortgages to our personal homes to guarantee the reimbursement of loans should the business fail. We were to have life insurance policies drawn up on Norm and myself to ensure repayment of the loans in the event that one of us should die. And, finally, have Wells Fargo guarantee—Wells Fargo wanted their loan guaranteed by the Small Business Administration. There were about three or four other conditions that had to be met.

Of course, meeting these conditions took time. It took approximately 8 weeks, and we were rather frustrated with Wells Fargo. So, we went talking to some banks, but as indicated by the previous panel, the banks did not understand the business. They more or less related us to a retail clothing store or a department store, and they did not understand our business.

Approximately after 8 weeks, thank God, the Small Business Administration came through, and we passed through them with flying colors, and we provided them with all the paperwork and the necessary information, it only took about 4 or 5 days to get their guarantee, and if it were not for them, our business probably would have been sold to someone else.

We received the approval from the SBA. As owners, this is what has transpired for 1984, for the 10 months that we owned the business; not 1 month did we lose any money.

In fact, our gross sales were over $2.3 million, and was the best year the company has ever had, prior to our purchase. Our return on our initial $100,000 investment was 83 percent or, in dollar terms, we had $83,000 returned on earnings that we put back into the company.

Also 1985 looks to be a good year or even a better year. However, none of this could have been done without the help of the SBA.

Now, as a businessman, sometimes I think we pay too much in taxes and sometimes I think there is too much interference by Government into our personal lives, but, then, I thought how Government has made big impacts on my own life regarding major decisions.

I graduated from college with the aid of a federally-insured school loan. I bought my first home with the aid of a federally-insured FHA loan, and Norm and I bought the Thermo King business with the aid of a federally insured SBA loan.

All of a sudden, I realized that, hey, the Government and myself have become pretty good partners and that we can work hand in hand, and you might ask the question, did the SBA get its investment back. Well, let me put it this way, we paid as a corporation $36,000 in State and Federal taxes in 1984. That does not include the taxes both Norm and I paid, and I might add that we paid considerably more than we did in 1983. Add to that the taxes generated by our 15 employees, and I think the Government made a pretty fair deal. All of us benefited, and Norm and I are very excited about our future.

Obviously, from what I just said, I think Government needs business and business needs Government. A good example of this decade is how the Government cooperated with Chrysler Corp. to ensure the survival of one of the greatest corporations of America and the results are phenomenal, although there was a lot of disagreement in Congress and Senate.

Maybe the SBA should take a closer look at their own operation and maybe take a little closer look at the business that they guarantee or perhaps it can be managed a little differently for cost effectiveness. But, I think to eliminate the SBA entirely would be a big mistake of the Government.

It would be a big mistake for banks because I think the banks need SBA also, and for the future of small businesses of this great country.

Thank you.

Mr. TORRES. Thank you, Mr. Van Beek, for an excellent statement. I am happy that you are able to come before our committee and provide this kind of testimonial to the effectiveness of an agency that was designed to do what you have just stated.

Obviously, there are mistakes made and there are many areas that things can be improved in, and your statement speaks to that.

I would like to hear from Mr. Bergthold, the Reedley Opera Co.

Sir.

TESTIMONY OF ARTHUR E. BERGTHOLD, REEDLEY OPERA HOUSE RESTAURANT, REEDLEY, CA

Mr. BERGTHOLD. My name is Art Bergthold. I live in Reedley, which is a small farming community, about 25 miles south and east of Fresno.

About 10 years ago, in fact, in 1975, my wife came home and stated that Colonel Sanders was going to put a Whirley-Bird Chicken on the main street of our quaint unique turn of the century downtown, and that was appalling to her as an historian and one that had followed history, and what made it particularly unique is for a number of years, our town had had an old opera house.

This is probably the only one of its type left in California that had not been restored, but it was there and it was an old warehouse, and Colonel Sanders proposed to demolish the entire corner and put his Whirley-Bird Chicken there.

So, I got together with several business acquaintances, one relative, and the three of us purchased this entire half-block of buildings at that point in time. And, over the last 10 years, we have renovated those facilities, except for the opera house portion, which was a large open warehouse that was occupied by Sears for over 20 years.

Reedley is a small farming community and has done a lot to assess its needs for the community, and in the last 25 years, they have never had a downtown restaurant of any type, other than a small coffee shop. And, so, survey after survey done by the community said that the need for a restaurant was the number one priority of our community.

Restaurants, as I quoted in mine, are not the most desirable businesses for banks to look at. Contrary to what everybody else said, they do not know anything about our business. Everybody knows about the restaurant business. And, however, because of the—again, Mr. Ruiz, the first group, made a statement that I felt was very important, is that many of our smaller communities have developed small community banks that have people that are from the community, that have invested their own dollars in those banks, and, however, they may not have a large capital to get too far out on the line for, you know, experimental or even if it is for the good of the community, type projects.

And, this was the case. We went to our small community locally owned, where they were very supportive, but they were not in a position where they could take on by themselves one of the riskiest type of businesses, as important as it might be for the community.

Let me just say this, this morning at 6 o'clock, our town held a sale to welcome spring, and I was bussing dishes at 6:30 because we had so many people from all over because they had a sale, 40 percent off from 6:30 to 7:30, and 30 percent, and our town was full of people, and it was probably the busiest day they are going to have all year, and part of the draw was the fact that people could come, and the husbands who did not want to go fight the crowds were sitting there having coffee, enjoying themselves, in our restaurant.

And, so, what we have become, and we are talking about the different influences of SBA, we have become a hub in our community that has helped to draw business from the entire surrounding community.

And, we, in addition, because we took a part of our community that was downtown, that was old and dilapidated, the buildings were 1903, and over the last 10 years, we have invested of our own money, $200,000 and $300,000, to develop the other. We have upgraded the whole end of our community, and as a result, a number of other businesses now are revitalizing theirs, and we were given an award as an organization that had helped with the redevelopment of our complete downtown facility.

So, the spin-off of that, I think, is the kind of thing that I do not know how you put into dollars, but I think it is extremely significant because we have a seating capacity of 350 people for a small town. We can handle banquets, we can handle meeting rooms. We can handle all kinds of programs, as a result of the SBA being able to see fit to work with us to accomplish this.

Two or three other things that have not been mentioned, and I could support the other peoples' positions on, but no one so far has talked about SCORE. The gentleman that walked through the door here and handed me this pack of papers, we are getting—he is a retired senior. I cannot remember what that stands for, but they are retired executives, that work through the SBA and give of their expertise and time on a volunteer basis.

Mr. **Torres**. I mentioned their program in my opening statement.

Mr. **Bergthold**. Oh, I am sorry. I got in a little late.

I wanted to say a good word for that because this gentleman that came in here this morning, we are going to start, we reconstructed it authentically on the inside with the stage as it was in 1903, and we are going to start some dinner theater in our community with some light operas and other entertainment to draw from the whole area, and this gentleman has had contacts with the symphony and with the arts league as a retired executive, and he has been helping me put together completely on his own time, volunteer, and has put me in contact in our town, Roger Rocca, the person that has the most successful dinner theater in our area.

And, just this last week, he set up a 2-hour appointment for me to meet personally with Mr. Rocca, who also received an SBA grant a number of years ago to make it successfully here in Fresno, but it was this SCORE volunteer that brought us two together.

Mr. **Torres**. I am happy to hear that. Could you give us his name?

Mr. **Bergthold**. Yes. His name is Ernest McWilliams.

Mr. **Torres**. Mr. Ernest McWilliams?

Mr. **Bergthold**. Mr. Ernest McWilliams.

Mr. **Torres**. Good. We would like that entered into the record as a manifestation of the excellent reputation that the Service Corps of Retired Executives has, and I am glad to see that in this particular case, that they were able to assist you.

Mr. **Bergthold**. The second area that no one really has touched on is that SBA has supplied and has a number of printed written materials, like cash-flow projections, and all these that are readily available, checklists for going into business. A number of key, pertinent materials that I think are essential and available at very reasonable or no cost.

They have pamphlet after pamphlet that are available to help a new business person start in their business, and I think that is another important aspect. It was for me. I came out of a different area, and getting into this area, to have all of the materials available at practically no cost, a tremendous wealth of peoples' expertise over the years and specifically relating to restaurants.

Just for the record, I might say that our loan was $200,000 from SBA. We now employ some 32 people, in our community, many minorities. We have had the fortune of hiring a master chef and a master baker, who are both nearing retirement, who are now training, and I have trained two minority young people to be now, after 6 or 8 months, to be qualified bakers, who can go out and get jobs and employment in any other place.

So, we are a training center for our area in this area. We have a young man right now in our kitchen observing and working with us, who wants to go into food service management.

So, we were able to preserve a building, we were able to provide jobs. We were able to get some experts who are now training additional people, and I think we are an asset to our community.

And, as I put in my last statement here, I think that for my wife and I, this has been possible, and that I really feel that it would just be irresponsibility on the government's part at this point to not seriously consider continuing the program.

[Mr. Bergthold's prepared statement follows:]

PREPARED STATEMENT OF ARTHUR E. BERGTHOLD, REEDLEY OPERA HOUSE RESTAURANT, REEDLEY, CA

The Reedley Opera House Restaurant and Gift Shop was the end result of a partnership purchase in 1975, of an old historical 1903 building.

In 1984 the entire restored and renovated Opera House complex was listed on the National Register of Historic Places.

Reedley, a small California farming community of 12,000, had for years been without a first class dinner restaurant in its downtown. Survey after survey of community needs listed as a top priority a first class downtown restaurant with banquet and meeting facilities.

We decided to rent from our partnership, space to make a downtown restaurant facility possible. However, the leasehold improvements, equipment, furnishings, and initial operating costs were above our personal financial ability. We went to our local Kings River State bank for help. The words, new restaurant, to a banker are almost always like waving a red flag, but with the guarantee from SBA, a $200,000 loan was not only possible, but forthcoming.

We have been open almost a year, employing some 32 people, full and part time. The restaurant and gift shop, we feel, have become a valuable addition to not only our downtown and local community but also a reason to come to Reedley from other areas to dine and shop.

The bottom line—SBA's loan guarantee made our dream to develop an Historic Opera House into a small independent business come true. We feel SBA is synonymous with apple pie and motherhood.

Mr. TORRES. Thank you, sir. Indeed, your story and your success is a credit, not only to the area, but to the country. These are the kinds of really success stories that, across this Nation, are many, and we simply want to develop a record of these to see to it that our country, our Government, receives a fair return on the initial amounts they put forth to people such as yourselves, to provide the leverage, the kind of jobs, and economic development that our cities and our rural areas need.

Thank you very much.

Mr. **Bergthold**. Can I just add one other comment for the record?

Mr. **Torres**. Certainly.

Mr. **Bergthold**. Last year, in 1984, our project was listed on the National Register of Historic Places, and since I believe only 16 were listed in the State of California total, it has made a significant impact in preserving one of the real historical buildings in the State of California.

Mr. **Torres**. Wonderful. Thank you, sir.

Mr. Okamoto, we would like to hear from you, sir.

TESTIMONY OF JAMES OKAMOTO, PRESIDENT, MOTION DESIGNS, INC., FRESNO, CA

Mr. **Okamoto**. My name is James Okamoto, and I am president of Motion Designs, Inc., of Fresno, and we are a new small business that began approximately 5 years ago, and we originated in Fresno and we are still here.

Along with two of my friends, we began this business 5 years ago, building ultralight wheelchairs, and it came out of the need of one of our friends, who was injured in an aircraft accident.

At the time, Don Helman, one of my partners, and I were building hang-gliders and designing them for market. That was not a very lucrative market, and we found a need in wheelchairs, however, due to Ms. Hamilton's accident, and we produced the wheelchair with the same aircraft materials and standards that we had been using previously.

We found it a natural to go into this type of business, so we took approximately 9 months and our own funding, our own money, and started developing the business. About a year later, we began marketing the products, and it seemed to take off after about a year.

So, we continued marketing and selling this product. We found there was a definite lack of cash-flow. Business was growing much more rapidly than we could handle, and we went to the SBA for a loan to get into new facilities.

We secured a $300,000 loan, and——

Mr. **Torres**. Stop there for a minute. How did you find out about SBA?

Mr. **Okamoto**. We just knew about it, just in general from other businesses that we dealt with, and other businesses that did secure SBA loans.

At the time, our time was taken completely in manufacturing. So, we did not have much time to look for loans or look for bank loans, and it is better spent actually doing the job that needed to be done.

So, we went to our bank, which we had always worked with, California First Bank of Fresno, and they were very receptive. I have to give them credit. They did all the paperwork, and looked into the loans, and worked with the local SBA in securing the funding.

What this did was it enabled us to get into larger facilities, 17,000 square feet. We started from a small garage operation, 500 square feet, and we remained there for about a year. Our business grew at a 45° angle, all the way from the start.

Last year, 1984, we were named the No. 1 Small Business in California, and we received the President's Award for the Western Region also.

About 4 months ago, we went back to Washington and met the President, and received our award, which was a very enjoyable experience.

Mr. **Torres**. The President, in providing that award, acknowledged the phenomenal success story that businesses like yours can be credited for the economic recovery of the Nation.

Mr. **Okamoto**. I believe everyone realizes that this last economic recovery was due primarily to businesses and I would say the small businesses.

A lot of our competitors, which are much larger than us, have offered to buy our business in the past. I imagine we had over half a dozen offers from our larger competitors, and what they realize is that ingenuity and the different element the small business has to be competitive, and a lot of large companies nowadays are pulling in small businesses, to bring in this entity, to revitalize their businesses.

And, we have done very well with ours. It has grown very well, and we have gotten a lot of support from the SBA, and what I like also is when we do not need help, they do not get in our way, and I think that is a very important factor also.

Small businesses need to incubate on their own. Just recently, we moved into approximately a 50,000 square foot building, which we constructed ourselves, along with the SBA's help, and an additional $500,000 loan.

In 1984, our gross sales were slightly in excess of $5 million. Projected next year, we should do, or we are on track for, a little bit over $8 million. So, we are still growing at a very large rate.

We employ 75 people out of the local community, and the majority of them are minorities. We take advantage of a lot of the programs locally in hiring minorities, and we sell our product throughout the United States. We sell extensively in Canada and northern Europe. We are expanding our overseas shipments.

I would say our percentage of overseas sales is, this last year, was 10 to 15 percent, even with the strength of the dollar. We seem to have penetrated a market and even though it is very hard to compete with the overseas manufacturers, we still seem to do very well.

My partner and I had a trip to Sweden, Denmark, and Finland. We went to Europe to see our dealers, to see what the market was, and everyone was very impressed with our U.S. products, regardless of its price or how hard it is to get.

Our plans in the future are building, have the capacity now to employ 100 people, in our present facility, and we have an option on a second property adjacent to our building, where we can expand to 100,000 square feet, and it is my personal opinion that we really need to support the SBA and regardless of what anyone has to say about inefficiencies or mismanagement, I feel that personally it is very self-funding, the amount of taxes we paid, our business has paid, and our employees have paid.

I am sure they far exceed what our loans are going to be, and right now our business is very solid and our SBA-guaranteed bank loan—our bank has kept good track of us, and our expenditures—and we are very solid for the foreseeable future.

[Mr. Okamoto's prepared statement follows:]

Prepared Statement of James Okamoto, President, Motion Designs, Inc., Fresno, CA

MOTION DESIGNS—WHERE MIRACLES NEVER CEASE

Motion Designs, is a new, rapidly growing small business based on hard work, determination, and constant product innovation. Since its inception, in the summer of 1980, it has provided the disabled community with the highest quality ultralight wheelchair available. It is with this same dedication to quality and performance that Motion Designs has carved its small niche in a marketplace dominated by a few large, established corporations and offered an alternative.

Motion Designs began as a back yard operation only 5 years ago. It rose out of a friendship between three people and the needs of a disabled community. The need is the same and the people, Don Helman, Jim Okamoto, and Marilyn Hamilton still run the business, although larger and more complex, with the same determination and care.

Don and Jim had known each other from kindergarten up through college. Sharing sports, from motorcycles to hang gliding, it seemed only natural for them to enter into business together. Looking at many different businesses with their advantages and disadvantages manufacturing seemed to be the answer. With limited startup capital nothing else seemed to have the low risk and high growth potential of manufacturing. Therefore, with little money and no experience the two began investigating, building, designing, and testing what else? . . . their favorite sport . . . hang gliders. It was during this time that they become good friends with Marilyn Hamilton, an avid skier, hang glider pilot and world traveler.

Then, on August 5, 1978, while hang gliding, Marilyn had a tragic accident. Falling 100 ft. to a rocky cliff below, mere survival would be a miracle. After four long hours, a team of rescuers were finally able to airlift her to safety. At St. Agnes Hospital in Fresno, CA, x rays revealed a crushing injury to Marilyn's twelfth thoracic vertebrae, a spinal cord injury which would leave her paralyzed from the waist down.

After extensive surgery and rehabilitation, Marilyn was adamant to not give up her active lifestyle. She became a pioneer in the new disabled sport of sit-skiing; downhill snow skiing utilizing a fiberglass sled and short metal poles for directional control. She also began to compete in wheelchair tennis, winning second place in her first tournament in Fresno, CA. It soon became quite evident that the wheelchairs available were not adequate for competitive tennis or her active life. Marilyn looked to Don and Jim for help. The problem . . . build a lighter, higher performance wheelchair. It seemed like a perfect first product.

Abandoning hang glider testing and manufacturing as too dangerous, Don, Jim, and Marilyn began developing wheelchairs in 1980 and Motion Designs was born.

The beginning was a 600 sq. ft. tin shed with no insulation, behind Don's parents home in Fresno, CA. Work began at 8 a.m. and continued till 11 p.m. 7 days a week. Design and testing continued for the next 8 months before the first product was perfected. Marilyn attended sporting events and asked doctors and other wheelchair users for input as to their needs and desires for a better wheelchair. After many prototypes, the "Quickie" was finally ready; the lightest, strongest, highest performance wheelchair available. Made of hang glider type aluminum alloys and synthetic materials the nonfolding rigid frame wheelchair was designed primarily for the sports oriented market with enough adaptability for everyday use.

Having little capital and experience manufacturing, the first Quickies were very labor intensive. Buying equipment as small as a bandsaw or air compressor was a large decision. Any small profit was placed directly back into the business while living on shrinking savings accounts. Most of the component parts were purchased from bicycle shops and wheelchair accessory suppliers. All of the hand powered benders and drilling fixtures were home built from a cost standpoint. The first chairs were almost totally hand built and sold directly to local wheelchair athletes.

It soon became apparent that selling direct to the consumer wasn't effective and in May of 1981 the first big break came with the sale to a local medical supply dealer. Shortly after, news of the "Quickie" spread and orders began to pick up. Don and Jim, with the help of friends erected an additional 1,000 sq. ft. tin building along side the existing one using materials obtained from a demolished building.

Now with 1,600 sq. ft. of area it was possible to keep up with orders at least temporarily. Sales grew to almost 17 units a month and by January 1982, it was decided that more room was necessary but neither the time or the capital was available to continue adding buildings at the present location. In February 1982 a necessary move was made to a 4,000 sq. ft. rental building in Clovis, CA.

The first Quickie model wheelchairs, built primarily for sports, had established a solid base, yet addressed only a relatively small market. In efforts to address the needs of a larger and more diverse market, a modular folding frame Quickie-2 wheelchair was designed and rigorously tested. Innovative engineering conceived a new pivot plate design which allows very compact and easy portability. Quickie-2, with its modular frame construction, allows for growth in both length and width by simply changing component parts. In order to customize each chair to fit an individual's needs, a large number of bolt-on accessories are available. For the first time, a custom wheelchair individualized for each person.

Confident that the performance, portability and growth features would meet market demands, patents were applied for and production planning began. It was felt that by releasing the new Quickie-2 with no advance warning, and holding back a large backlog of inventory to meet demand, the small company could quickly establish its foothold on this new market.

This obviously meant more room was again necessary. Motion Designs moved for a second time in February 1983 to a 17,000 sq. ft. complex, employing 32 people and increasing production to over 300 wheelchairs per month. These strong sales meant heavy capitalization and resulted in a cash flow lag.

Money was now a problem. California First Bank, in conjunction with the Small Business Administration, secured Motion Designs a $300,000.00 SBA loan and progress continued. Market penetration went even further than expected and sales doubled in 6 months.

This rapid rate of growth, with all of its problems, small and large, signified Motion Designs' acceptance by the medical community and heralded a bright and promising future.

Motion Designs has continued to broaden the Quickie product line and expand its marketing scope. The newest editions include a Kids Quickie-2 (specifically scaled down for children), and a limited option Quickie-3 which meets the needs of those looking for performance and greater affordability.

The Company has recently moved into a new 50,000 sq. ft. facility and presently employs 75 people.

Quickie wheelchairs are now sold throughout the United States, Canada and Northern Europe and enjoy a reputation of being the best performing wheelchair available—a testament to tenacity and perseverance.

Mr. OKAMOTO. I think the SBA is very important in fostering this belief in the United States and producing more jobs. That is what we are here to do, produce more jobs and get people off the unemployment lines.

Mr. TORRES. That is the way you reduce the deficit.

Mr. OKAMOTO. Definitely.

Mr. TORRES. Would any of the other witnesses care to comment on that?

Mr. VAN BEEK. Yes. Mr. Okamoto has a heart-rending story. The SBA provided an opportunity for handicapped people and had it not been for the SBA, maybe this thing would never have gotten on board, but he has really opened up something for the handicapped people of this Nation, and it gives them an opportunity to expand upon their restrictive lifestyles.

Our company is not providing a product like that, but certainly the product we provide is a very essential product to this Nation, and without the Small Business Administration, this country is going to be in big trouble.

It is going to be like he is talking about in Europe. People talk about the high standards of living in Sweden, Holland, Germany, and Japan. I have been over there. It does not compare to this country. That is a bunch of baloney, and what has made this country great is the Government has been able to work with the small businessman and given him the assistance that he needs.

We talk about, you see on the news all the time, you hear it and you read about it in the newspapers, about what is going on in corporations, large corporations of the country. They are essential to our economy, obviously, but those large corporations hurt our small businesses, and as Mr. Okamoto pointed out, these small businesses are giving us the creativity that we need for this country to continue on to be the great country that it is.

Mr. **Torres**. Thank you very much.

Mr. **Bergthold**. Excuse me. I have one comment. Possibly one of the areas that SBA might improve would be—I think that maybe they have failed to tell the story of the spinoff benefits or the lack of documentation that would lead to this kind of drastic action, that maybe it needs to be built into the system some place for the future, and I assume that is what you are doing now, is collecting data and evidence, so when you take a new business on that maybe the spinoff of what happens in jobs and in the taxes that are created from those jobs, so that in the future, there is some kind of system set up that we are not in this particular situation in the future.

So, I am just saying maybe that has been the fault, that they have been so busy doing what they are doing, they have not taken the time to document all of the intangibles that could be made tangible. We can say, like several of the men, I provided so many jobs, paid so much taxes, and maybe somehow in the collecting of the data, some of that needs to be done throughout the entire system.

Mr. **Torres**. Thank you. Thank you very much.

We have one more panelist in your group, discussing business loan guarantees, and that is Mr. Sam Ganimian of Hye Quality Bakery.

Mr. Ganimian, would you please sit down there at that chair. Make sure that that microphone is well around your neck, so that the recorder can take your statement.

Introduce yourself and please give us a short statement. As you have heard the other gentlemen at the table here, you are free to make any comments necessary.

TESTIMONY OF SAMMY GANIMIAN, OWNER, HYE QUALITY BAKERY, FRESNO, CA

Mr. **Ganimian**. Thank you very much. My name is Sammy Ganimian, and I own Hye Quality Bakery in Fresno. We have been in business approximately 28 years.

The business was started by my parents. The old traditional story, a mom and pop business. In 1957, my parents started the bakery and it was a very small mom and pop operation. The product we baked was a traditional Armenian cracker bread. I don't know how many of you are familiar with that here.

But, everything was done by hand. The whole operation was hand done. The dough was mixed in a small mixer a few pounds at a time, then would be cut and rounded and put in wooden boxes to rise, and to abbreviate the story, in about 1975, my parents then decided they had worked long enough and they wanted to retire.

I had just finished UCLA, and had gotten my master's degree and I had not intended to go into the bakery business. It was just one of those flooky deals. My master's was in film and television production.

However, I worked in Los Angeles and I came back to Fresno and taught a couple of years at Fresno State, and decided that I would go into the business. I had been working with my parents ever since I was a kid. I realized the way this business was operating, it was futile. We had new markets that we could develop. We had new areas that we could take our product into, but we were not in a position to manufacture it fast enough or in big enough quantities, and in 1977–78, we had gotten a flyer from the Chamber of Commerce here in Fresno, and in conjunction with the SBA, they were providing seminars, and this was exactly what I was looking for.

They were providing seminars for those businesses, for small businesses, who were looking to expand. So, I took the seminars and met Bob Strauss, who was then head of the SBA here in town, and they gave us the insight that was necessary to go about the procedures that are necessary to follow through with trying to get an SBA loan.

I don't know what the rationale is that the administration is using to cut out the SBA today, so I can't refute point by point what their contention is in arriving at the conclusion that they have arrived at, but I could give you how it applies to us as individuals.

Mr. TORRES. Please do.

Mr. GANIMIAN. After I had taken the seminar, it took me a good year to get our act together as far as the presentations and cost analysis and machinery and equipment. Now, we were, at the time, we were leasing a building that was about 1,800 square feet. Our production was very small. It would take us 6 to 8 minutes, to bake about 24 rounds of cracker bread. Now, we can bake 30 in 1 minute.

So, what has happened, after a year, I put our proposal together and presented it to the SBA, and at the time, everybody looked at me and said it is ridiculous, you will never get the money, forget going to commercial banks. At the time, commercial loans were a little bit hard to get.

But, we made a presentation to the SBA. It was a $400,000 loan, and it was granted to us. I am glad to say that this loan was guaranteed by the SBA, and we were fortunate enough that it has not cost the Government a penny, and we were able to make all our payments and meet all our obligations, and we are still growing with leaps and bounds.

What it has allowed us to do is expand our plant from 1,800 square feet to 10,000 square feet. Instead of renting a building, we now own our own building. Our production line is now not fully automated, but just about fully automated.

We are now hiring more people than we have had before. We develop new lines of products that we were not able to produce before. Of course, our volume has more than quadrupled. We are expanding our markets whereas before we were only able to supply the local markets. Now, we are distributing on a national level.

I just brought this example of the Gourmet Retailer. This is one of the national publications that the food industry uses, and this is one of our ads that we run monthly. And, from this ad, we—they generate these sorts of followups.

Every month, we get these followups. So, now, we are in sort of a catch-22 position where we are running the business and you are busy running the business, and you find yourself without enough time to follow up all the leads, and it is kind of frustrating, but little by little, we have been able to do it.

But, the loan has allowed us to expand. We buy more materials in the Fresno market. We buy more bags. We buy more boxes. We buy more paper products. We buy more foam. This has generated more local business for some other small businesses in Fresno.

So, in that sense, we are aiding the local economy, which helps the general economy. Of course, we advertise nationally. We are sort of a local tradition that has developed into a much, much larger business because of the loan that was guaranteed by the SBA.

We have also been able to reinvest, without borrowing any money, $75,000, actually more than $75,000, right back into the business on more machinery, and we are constantly upgrading our equipment, getting into more sophisticated electronic eyes and photocells and things like that, on our conveyor systems.

From our perspective, legitimate businesses that have proven themselves with a track record should be allowed to use SBA services. Our expansion was a major one. We have the new building, the new machinery in 1978, and the year before that, our commercial loan—in 1978, as I said, commercial loans were hard to get, but by going to the SBA, within 2 weeks, they said fine. After reading the proposals, we had our plans, we had our machinery, diagrams all laid out, the blueprints all laid out, we had done our homework, we had our projections provided, and I was really amazed at the speed with which they helped us.

I think that the SBA should provide an opportunity to help those individuals who have proven themselves, those people who are honest, who are legitimate and capable of running and managing a business should be given a chance to do so. The SBA should screen their applicants thoroughly and eliminate what they consider to be bad risks, just like a bank does. I know the SBA does not give everybody the money that they ask for, that is impossible, I think that it would be detrimental to small business to eliminate the program that they have going right now.

When the Government takes tax dollars from all the small businesses across the country, like so many of us have said today, there should be some form of assistance afforded to these small businesses when they need assistance.

There are more tax incentives and loopholes provided to major corporations, you know that, than there are to small businesses in this country, and it is the small businesses of America that help make this country what it is, and I think it would be a slap in the face to the small businesses of America if they were to eliminate the SBA.

As so many have said today, it is the small businesses that grow. Most individuals are not working for major corporations. When you add it all together, most of the individuals are working for smaller businesses across the country.

Small business does not abandon the American workman, shut-down plants in the United States, and take production to Hong Kong and Japan. You find that businesses that are aided by the SBA stay in the United States, and keep employing Americans, and when they grow, usually they stay in this country because they feel a sense of obligation to stay here and prosper and keep Americans working.

I think that the Government owes a debt of gratitude to small business, and they should help expand small business rather than squash it by eliminating the SBA, which is what they would be doing if they eliminated it.

The growth of a small business is felt right down the line. You hire more people, they pay taxes, they buy food, they buy clothing, they buy housing. They pay taxes.

So, their earnings and the earnings of the small business provide more economic growth and expansion for this country, and I think that is what SBA is all about, and I think it is essential that we keep it.

I do not know where they are coming from when they say that we have to get rid of the SBA and why the decision was made, and if they think that it is going to cut out spending or help the economy, we talked about this the other day, if the Pentagon has a quarter of $1 trillion waiting to be spent that they have not spent yet. SBA would not, and could not even touch a figure like that, and the money that SBA has invested in most major businesses has come right back in the form of taxes.

[Mr. Ganimian's prepared statement follows:]

PREPARED STATEMENT OF SAMMY GANIMIAN, OWNER, HYE QUALITY BAKERY, FRESNO, CA

In June 1978, the SBA backed our loan for $400,000.00.

The SBA loan allowed us to do the following:

1. Expand our plant from a rental of 1,800 square feet to our own building of 10,000 square feet.
2. To automate our production line and thus eliminate the tedious hand labor.
3. Produce more volume in less time—quadruple our production.
4. Capability to develop and produce new food products for consumers.
5. Hire more people to run plant and production.
6. Expand our market area from strictly local sales to national sales and distribution.
7. We have helped the economy by putting people to work and keeping them working. We are also purchasing large quantities of packaging materials, flour and ingredients that also help other businesses which in turn help the overall economy.
8. We now also advertise nationally in Food publications such as the Gourmet Retailer to reach out to new customers and expand our market.
9. We continue to find ourselves in a state of growing pains—being kept busy in production and following leads for greater growth and volume.

Mr. **TORRES**. Thank you, sir, for a very eloquent statement.

Let me just go back to your initial question in asking why you feel that the SBA has proposed to be eliminated. And, just somewhat apprise you of that.

There is now, as you know, before the committee, a bill introduced by one of my own colleagues, Mr. David Dreier, called the Small Business Administration Sunset Act of 1985, and this bill embodies the Reagan administration budget proposals to dismantle SBA.

Mr. Dreier contends, perhaps opposed to your statements, that the SBA credit programs do not expand the availability of capital resources, does not play any significant role in new business starts, does not contribute to dynamic growth oriented firms, and so does not provide sufficient resources to help small businesses compete with big business.

On the other hand, he argues that these programs shift capital away from more credit worthy firms to less credit worthy ones; the SBA loans have high default rates; they create a drain on the Federal budget, and create subsidized competition for 99.8 percent of those small businesses that pay their own way.

He says, in essence, mainstream America has no use for the SBA, and we should not either. And, he feels that we should abolish the SBA, and, so, he has proposed legislation, H.R. 1461.

We are in here today, Fresno being the first city of many cities in America in which field hearings like this are being held by the House Committee on Small Business, to hear from you, the users of the program, those success stories like we have heard here this morning, which contradict what I have just said to you is the proposition that we should eliminate the SBA.

So, as we move through Fresno, tomorrow Los Angeles, and then Washington, DC, Chicago, Houston, and Philadelphia, we will accumulate this information, and we will use this information as a record to show the administration that there is in America a real need for this kind of a program.

If we are going to reduce the deficit, this is the way we reduce the deficit, not by eliminating programs. So, I take highly to your words, and I appreciate very much your statement. I thought that I should let you know what the premises for eliminating the program were.

Mr. GANIMIAN. I do not know where these figures are coming from, so I have nothing to compare them to, but most people are under the impression that when you get an SBA loan, automatically they give you the money and that is it.

Well, the SBA, in our situation, guaranteed the bank the loan had we defaulted, and we have not defaulted, and just like any other business, we were paying high interest rates when interest was sky-high, and we were not getting any benefits and incentives from the Government as far as that goes.

So, it is not costing them anything, but, yet, the SBA gave us the opportunity to go and expand, which we would not have been able to do as readily and as easily as we did if they had not guaranteed that loan.

And, you could see—we might not have been in a situation to promote our product nationally, I am sure. It was a situation where you either expand or you just close out because it was so frustrating, you could not produce the product to supply the demand. And, you had to either expand or just eliminate it all together.

So, that provided us a great chance to buy our building, to put in new machinery, to expand, like I said, to go into new markets, and we are still growing now. We are feeling growing pains that are killing us, but little by little, we are going to new markets, we keep improving our equipment, and now when we thought the 10,000 square feet was going to be adequate, we are looking at more space now to develop the new product lines.

So, to say that the SBA is not benefiting businesses, I think, is absolutely ridiculous. To say that the SBA is a drain is ludicrous. Look how many people they are putting to work, and all those tax dollars that are coming back to the economy.

Mr. TORRES. Thank you very much.

I very much appreciate your taking time this morning to be with us. Each and every one of you, I am sure, as I said earlier, took time off from their jobs, and their enterprises, to be here, but it has been very valuable for us to make this a part of the record.

I might say that all of the proceedings that have taken place here today are being recorded as part of the official record. Eventually, at the culmination of the field hearings, it will be compiled in a congressional report from this committee to the House of Representatives, and we will see and make sure that each of you receives a copy of this record.

Thank you very much.

We are moving along on schedule here, and I would like to call forth one witness this committee would like to hear from.

We have heard this morning, in the discussion ensuing with the various small business persons here, about some of the difficulties that they have often encountered with banks, etc., and I am sure that that is not always the case. There are some banks that we notice which are very forthcoming and assisted the small businesses that we have heard.

We would like to hear from such a banker now, Mr. Ron Allison. If Mr. Allison would come forth, he is the vice president and senior loan officer of Kings River State Bank.

Mr. Allison, welcome to the committee this morning. If you would, please give us about a 10-minute statement regarding the activities of your bank, and how you see the proposition of the elimination of the SBA program.

TESTIMONY OF RON ALLISON, VICE PRESIDENT AND SENIOR LOAN OFFICER, KINGS RIVER BANK

Mr. ALLISON. The Small Business Administration has provided to our bank a unique opportunity to assist the communities which we serve. We are a very small rural bank. We began in 1978. We were founded to serve our local markets, and in such did not have a national scope to resell major commercial loans. Through the Small Business Administration guarantees, we were able to originate and service many people that, otherwise, we would not have been able to help. The guarantee provides a viable secondary market for resell of loans to the secondary market on businesses that otherwise we would not have any access to at all.

During the past few years, since 1978, our bank has originated some 40 SBA loans consisting of $7.8 million. Of that, we have resold the majority into secondary markets and reinvested those same dollars again in our community. These dollars have allowed our community to start businesses that have been waiting to be started for many years. It has provided us the capital to expand businesses that are in our community, to a scale that is economically feasible.

They continued to grow and, at some point, businesses need to make major capital investments, and, in many cases, those major capital investments cannot be funded directly from a commercial bank. Of all the types of loans that are resold in the secondary market today, and that includes FHA loans, SBA loans, mortgage backed loans, agricultural loans, the SBA is probably the most beneficial to our bank, and it is probably the most needed.

Many of the other types of loans can be resold without such guarantees. A business loan for working capital, for equipment, and major capital expenditures cannot.

I have many loans on our books that are not SBA loans that are for commercial development. The only viable way of recapturing those dollars is to discount them with the Federal Reserve System at many times less than their face value. So that we have been able to impart to our community, and these are communities of less than 10,000, substantial dollars for economic growth and expansion, and an economy in which we would not be expanding and growing otherwise.

Since 1980, we have opened supermarkets, accounting corporations, fast-food stores, opera houses. We have been able to help our communities expand services, basic services, such as medical supplies. We started a new doctor in business in a small rural community where there was no doctor before.

These are the kinds of things, as a bank, we are able to do with the assistance of the Small Business Administration, and I am here to tell you that no, they do not grant every loan, but we submit, and, no, not every loan works out, but of all the loans that they have made, a very small minority have not performed, and of that small minority, I know of none that we have originated where the SBA has actually taken a dollar loss.

When you consider the tremendous benefits to the communities that I serve as a banker in dollars, and to the Government in taxes, the SBA is by far the most profitable business in our community.

Thank you.

Mr. TORRES. Thank you.

If I understand your last emphasis in your statement, I have heard it said and I have received testimony and correspondence to the fact that opponents of SBA, in arguing that the agency is especially costly to the Government because of the large number of defaulted loans, you are saying there is a small minority of those that you are aware of.

Moreover, another common argument against the SBA is that the agency is a drag on the economy because it interferes in the private capital market.

Can you speak to that?

Mr. **Allison**. Yes; I would like to very much.

The SBA has, in fact, not interfered in the private market, and, in many cases, it has assisted the private market. I sell multiple types of loans, not just SBA loans, in the secondary market, and the SBA is probably one of the most attractive investments for an investor in the secondary market.

I am able to move those loans much easier than I am Fannie Mae backed securities. Also, the assurance of it being paid is greater, and banks can hold those loans on their books without regard to their deposits as well. Without considering the ratio of loans to deposits for the SBA guaranteed portion of it, which we could not do without that guarantee.

So, it has substantially improved and in no way been detrimental to the market place. I think that is absolutely wrong.

Mr. **Torres**. Thank you.

If small businesses could not get SBA assistance, where would they go?

Mr. **Allison**. I don't believe that there is any place for them to go. You have heard today and you will hear today from the people that I have assisted. Some of them with the help of SBA, some of them have waited 8 or 9 years to go into business, have acquired assets, management capabilities, have managed similar businesses. They had been successful businessmen, but not been in business for themselves.

The SBA allows you to bridge that gap between being a good manager and being a good entrepreneur. Being truly that America was founded to be self-sufficient, and it is not a subsidy; it is a real benefit to us all, and a benefit to the country, both in spirit and in dollars.

Although I am a Republican and support the administration, I do not think they are always right in everything they do, and this is one time I think they could be wrong.

Mr. **Torres**. Mr. Allison, I want to ask you one question here. How much capital has been imported into this community by your bank's participation in these secondary market programs to which the guaranteed portion of the loans are sold?

Mr. **Allison**. At the present time, we have on our books approximately $5,278,000 SBA loans. Of which, $3,660,000 have been sold in the secondary market.

Now, the difference of that, while it is more than 10 percent, which is the unguaranteed portion, represents loans that are currently in the process of being sold, and in many cases, projects that are under construction. Loans that are being originated.

This is the time of year that we would sell in the secondary market. Typically, we hold until such time we, as a bank, need the funds, and we are at that point now.

The loans provide us with a great deal of liquidity for the bank as well, and it is something that is a management tool to us that is very, very useful.

I must say that without them, we would not have made near the profits as a bank and as an institution, and be as good a financial help as we are without them.

We have not only assisted the businesses, they have assisted the bank in this case, and we are not a large institution. We have less than $50 million in total deposits and assets. We are owned by 265 people who live in our community. Nobody owns more than 8 or 9 percent of our stock. It is not something that was done for anybody's particular benefit. It has done something for our community, for the whole.

Mr. **Torres**. Mr. Allison, I want to thank you very much for being here today with us, and providing this testimony. My congratulations to the Kings River State Bank and its board of directors and it shareholders for the good work that you are doing in this community.

Thank you, sir.

Mr. **Allison**. Thank you.

Mr. **Torres**. We are now going to move into panel number three, which will speak to the issue of business loan guarantees, and I am going to ask the following people to join us here at the table, to provide testimony for us.

Mr. Frank Villegas of Chihuahua Tortilleria, Mrs. Gladys Riser of Risers', Inc., Mr. Michael Shuemake, Central Valley Trailer Repair, Mr. James Josephson, San Joaquin Helicopters, Inc., Mr. Chuck Hue Gong of Farmers Foods.

We are going to have Mr. Art Solano substituting for Mr. Villegas. I know Mr. Villegas personally, and I am sorry he is not here, but certainly, sir, we will want to hear from you.

As you may have observed earlier, we asked each of the witnesses here to, first of all, attach the microphones around your neck, so that this will facilitate the recorder's use.

We will ask each of you to make about a 10 minute statement regarding the issue at hand here, and we will start in the order that I called here, hearing from Mr. Solano of Chihuahua Tortilleria.

Please proceed, sir.

TESTIMONY OF ART SOLANO, CHIHUAHUA TORTILLERIA, INC., FRESNO, CA

Mr. **Solano**. Thank you. Mr. Villegas had emergency business in Los Angeles and will not be present. I am sure he would have liked to have been.

I would like to give you a little background about Chihuahua Tortilleria. The story of Chihuahua started with the Francisco and his wife, Hileria Villegas. They emigrated to Fresno in 1945, I believe, from Chihuahua, Chi, Mexico.

In 1947, after a few years of working in the fields, in the San Joaquin Valley, the family was able to save enough money to buy a small restaurant in Fresno. The Chihuahua Cafe quickly became popular for its delicious homemade styled tortillas.

Fidel, the oldest son, decided one day to try to sell tortillas directly to grocery stores for resale to consumers. In those days, tortillas were wrapped in plain butcher paper, so the consumers had to buy them sight unseen, and their reputation was not well known.

But, gradually, this reputation spread. As the demand for tortillas grew, the Villegas' family realized that the future was not in their small restaurant, but, rather, in a mass-produced tortillas for sale to grocery stores and restaurants.

So that year, Chihuahua became a tortilla manufacturing wholesaling company. As good production techniques improved and after 38 years, now instead of producing 150 dozen a day, they produce over 90,000 dozen a day.

So, the way it has improved is through the high quality and bringing together of a group of skills from various backgrounds to produce—they have one common goal, and that is to produce a good quality product.

General manager and vice president, Joe Frank Villegas, is confident that if we continue to adhere to quality and service to its customers, that Chihuahua will continue to be a leader in its field.

In 1973, with the aid of a SBA guaranteed loan, Chihuahua purchased a 12,000 square foot facility located at 718 F Street. This building was to allow them to spread their—expand their corn and flour production capacity as well as open a small deli and grocery store.

Mr. TORRES. What was the amount of that loan?

Mr. SOLANO. $191,000.

Mr. TORRES. All right.

Mr. SOLANO. It was through Wells Fargo in West Fresno.

That loan helped them to expand that facility. That first year. In 1972, sales were about $750,000. After the first year, with the new facility, they went to $1,200,000 and the years followed, the sales kept increasing from 20 to 25 percent a year. So, it was clear to management that they would have to expand again, and as a stopgap measure, they moved to 704 G Street, where they produced flour tortillas and used that for a warehouse.

By 1975, Frank Villegas realized that Chihuahua needed a new home. They were running out of room again. By coincidence, a 5.4 acre parcel located next to the freeway adjacent to downtown with light manufacturing zoning was available to a Fresno redevelopment agency.

A vocational school was going to be built there earlier, but proposition 13 knocked that out of the budget. So, Chihuahua then petitioned the city of Fresno to allow them to develop this property on the condition that they could finance the project.

So, over the next few years, and seven extensions of the option to purchase the property, they put together various packages, including one to the Economic Development Agency Administration.

It was approved on the west coast and due to Federal cuts in EDA's budget in 1981, they were turned down in Washington, DC. In 1981, Robert Klein from Tomar-Klein Financial Group was retained by the Villegas family to discuss their new package, to see if they could get financing.

The package included a three-tiered loan with an urban development action grant, a tax-exempt revenue bond, and private investors. After many months of planning, research, and an enormous amount of documentation and negotiations, a $3.9 million package that met all the needs of the public and private participants was assembled, approved and signed.

Construction for a new 60,000 square foot facility was underway by August 1983. On June 23, 1984, Chihuahua opened its new Mercado Delicatessen, incorporating a central plaza which is surrounded by an ice cream parlor, clothing store, record store, and a flower shop.

Upstairs, we have professional offices, a radio station, KGST, and accounting offices. The new facility incorporates the latest state of the art techniques in regard to use of energy, heat reclaim systems.

In this unique, one-of-a-kind facility, Chihuahua combines the flavor, authentic favor of Old Mexico with modern technology, and it is, indeed, for the Villegas family a dream come true.

In 1972, going back to the start of the loan history, Chihuahua employed 38 people, and we had approximately a payroll of $165,000. In—since that time, sales have increased from $750,000 to this year of $11.2 million. We now employ 280 people and have an annual payroll of $2.5, $2.6 million.

Cumulatively, over the years, we have provided a payroll in West Fresno of over $13 million, and I am certain without the aid of that SBA guarantee loan, this dream would never have gotten off the ground, and, so, we are extremely grateful that the Federal Government was able to come in at that point and guarantee to the bank that the Villegas family would be worthy of entrusting them with their $191,000, which was sort of like the "bootstrap" that got them off the ground.

Mr. **Torres**. Indeed, it is. It is a marvelous success story of an idea, a lot of hard work, and, again, a partnership of the Federal Government, and one can see by the numbers you have cited, the tremendous leverage that that has created, not only for jobs and income to the area, but a return to the Federal Government.

Thank you very much, Mr. Solano.

The next person I will call on Ms.—Mrs. Riser.

TESTIMONY OF GLADYS RISER, RISERS', INC., FRESNO, CA

Ms. **Riser**. Yes. I am Gladys Riser, and I am the financial officer and office manager and part owner, of course, of Risers', Inc.

And, we are a full-service x ray equipment and products company. We sell x ray supplies, x ray accessories, major components, everything, as I usually explain it, from the big x ray tubes and equipment down to the barium enemas.

And, our basic main facility is at 223 Broadway in Fresno, and we have branch offices in Bakersfield and we recently opened a shop in Valencia.

And, at the present time, we employ 38 people on a full-time basis, and their jobs include maintaining the x ray equipment and processing equipment that means, on a routine basis, going out and cleaning and lubricating, and so forth and we have people who are in route sales and delivery and equipment and accessory sales and processor repair, x ray repair, and shipping and receiving and the chemistry mixer and the clerical support staff.

Our total sales for our fiscal year ending September 30, 1984, were right at $6 million. And, we are really very proud of the statistics that I have just given you because we started this company with three part-time employees, my husband, my brother-in-law, and myself, and each of us accepted a portion of the responsibility, we worked on a part-time basis, and held down our regular 40 hour a week jobs, and our first x ray processing chemistry was mixed in the garage of our home.

It was a total of 15 gallons of processing chemistry. It was delivered to a doctor in Hanford, and my husband cleaned and maintained the x ray processor at night after completing his 8 hours or 10 hours, whatever it was, at the local newspaper.

And, we now sell about 15,000 gallons of x ray chemistry per month, and we clean and maintain 350 x ray processors per month, and we are also very pleased because we feel that we have become a very first-rate x ray sales and service company, and in so doing, we have become an asset to the community because we serve the hospitals, the doctors, and all the other people that provide health maintenance to the community.

We pride ourselves in the quality of work that we are able to perform, and the staff that we are able to maintain.

In the beginning, which was about 1971, as I told you before, it started with just the three of us, we conceived the idea of this, what we called the solution service, which was just doing premix chemistry and maintaining the processors, for the hospitals and the medical offices because in becoming acquainted with some of the people, we could see that the mixing of this chemistry would be done by high paid technologists, and also there was a chance that the chemistry that was being mixed had certain inconsistencies.

And, we felt that we could premix this chemistry, deliver it, and have it ready for use at about the same price to the facility as they were spending on it at that time.

And, our chemistry now is mixed in quantity batches. It is temperature controlled, and the bulk material is always stored at manufacturer's specifications. So, it is always A plus in quality.

And, from selling only the x ray solutions and cleaning and maintaining the processors, we then gradually began expanding into the sales of the other x ray related items.

By 1972, it was apparent that we had to move into a warehouse office and move this operation into a home of its own, and we located a building at 930 Fresno Street and a short while later, we hired our first full-time employee.

The three of us still held our outside jobs, we still worked on a part-time basis, and we were able to subsidize the business and help it grow to its full potential. With a lot of hard work and our combined efforts, by 1975, we had acquired several dealerships as well as various private clients, and we made the decision to expand our services to full x ray, which includes the sale of the products and the other things that are explained above.

And, by this time, we had already obtained some capital from the bank borrowing besides our own investments, and we felt that we needed additional money so that we could purchase an inventory and be able to serve the customers that we were trying to acquire.

And, our bank directed us to the SBA financing for this inventory expansion need. We had worked with Central Bank of Fresno and had obtained several loans, including the real estate loan on the Fresno street property, and the bank recognized our efforts, and the fact that we had been pretty well contributing time and effort without a lot of pay, and our personal finances to get this business off to a good start.

And, the SBA loan was granted to us. We had the funds for the expansion, and we had a payment that the bank worked out on a reasonable basis that would not strap us and it had a 7 year due date, I believe it was, and that loan was paid in full as of the middle of last year.

And, with the exception of our sales force and some of the people in our administration, the people that we employ are primarily high school graduates. Some of them have various degrees of training in mechanics and electronics, but, basically, it is strictly high school education, but we do have ongoing in-house training programs for the personnel in the service areas.

Additionally, we send the service personnel to the manufacturer's sponsored schools, and the supervisors go to educational seminars to help them become more proficient, and during the course of the years, we expanded into Bakersfield, and, then, last year, into our third facility down in Valencia.

And, through all of this, we have been able to establish a very nice pension and profit-sharing plan for the employees, and they are provided with health insurance and paid vacation, life insurance by our company, and all of the other nice benefits that employees are entitled to when they do a good job.

One of our young men, who previously—he started out as a route service driver and he then was promoted to shipping and receiving, and now he is a branch manager down in Valencia, and we were really grateful to be able to get our SBA loan when we got it because with the help of the bank and the SBA loan, we were able to grow and to progress and to reach the goals that we had projected; without the SBA loan, it would have been a very difficult thing for us because we had already invested a good deal of our own money to get started.

Mr. **Torres**. Just a question at this point, did you apply for, did you receive any kind of technical assistance from SBA over and above the financial——

Ms. **Riser**. No.

Mr. **Torres**. You did not need any kind of help?

Ms. **Riser**. No; the technical assistance was provided to us by people like Eastman Kodak Co., the Du Pont Co., and other companies, Toshiba people who we had the dealerships with.

They made their schools available to us, and we just opened our minds and put to work the abilities that God had given us and tried to do the best job that we could do.

And, it is kind of difficult for me to tell anyone about growing pains when they have not experienced it. When you are starting a business, adequate working capital is critical and it is vital to the growth of any company and the success of any company.

Without that, you stretch your personal resources to the limit, and, you know, when you have gotten to the limit, then where do you go. You have to have somewhere to go or you have to start on a new project, and we—fortunately, we did not have to do that.

Our company grew and we feel that this was very fortunate, and it was fortunate that our opportunity came at the time that it did, and that we had the combined knowledge and the combined ability, and, you know, we kind of looked upon the bank as our partner and with SBA's help, the SBA was our partner, too.

We were able to start a successful business, and we feel that we really were successful because we received and achieved the personal achievement and accomplishments and, of course, personal financial needs, but aside from that, we also provided jobs for these 38 people that we now employ.

They all have a position of security, and we are also providing a service to the people serving the people in the hospitals and the doctors and the medical profession.

I feel very proud of what we have been able to accomplish, and also am thankful to the SBA for their part in it.

Mr. Torres. Do you feel that the Federal Government has received a return of the initial investment that they made in you?

Ms. Riser. I certainly do because I feel like we have—as I said, these people, these 38 people, as other people have said here before, who are able to pay their taxes. Some of these people—in fact, I have one young lady working for me who was on assistance because she happened to be an illegitimate mother.

So, that, in itself, is a case——

Mr. Torres. You took someone off the welfare rolls and put her to gainful work.

Ms. Riser. That is right, and during the course of our work, we hired an ex-convict at one time who had had some background in electronics in his prison term. We hired him under the Target Jobs Program.

So, I really and truly do feel that they made money from the loan also because we made our payments, and we also fell into the high interest bracket at one time that the other bakery gentleman was talking about.

Fortunately, we were able to make the payments and continue growing.

Mr. Torres. Thank you very much, Ms. Riser, for——

Ms. Riser. You are very welcome.

Mr. Torres [continuing]. A very good statement, and a great phenomenal story about how you grew.

Ms. Riser. Thank you.

Mr. Torres. Mr. Shuemake, is it?

Mr. Shuemake. Shuemake.

Mr. Torres. Shuemake. All right.

TESTIMONY OF MICHAEL L. SHUEMAKE, CENTRAL VALLEY TRAILER REPAIR, FRESNO, CA

Mr. Shuemake. I apologize. I do not have a prepared statement, but I can go through the——

Mr. Torres. Well, the record will document your statement.

Mr. Shuemake. Just a little background on the company. We repair commercial trucks and trailers, reefer vans, flat beds.

I applied for a loan with the bank a year ago, and was told at that time that the only way we could put the package together was with an SBA guarantee and we went through the documentation it took to go through those channels——

Mr. TORRES. Stop there. Why do you suppose they said that the only way you could receive this kind of loan would be with an SBA guarantee? Were you a risk?

Mr. SHUEMAKE. Only because of there was not enough assets—I did not have enough personal assets.

Mr. TORRES. Equity.

Mr. SHUEMAKE. Equity to guarantee the entire loan amount. I was asking for more money than I would actually be worth.

So, I am sure that that was the reason. So, I did not show the numbers on paper to be able to repay it without some sort of guarantee.

Anyway, we went through the documentation, the loan was approved. In the course of the documentation, you have to project all the numbers you are going to do for the year. I projected that we would have four employees, do about $320,000 the first whole year of business.

We did not open until June. We did $360,000 last year. We went from 4 employees the first week to today I am employing 15 people.

In essence, we doubled the projections for last year. I think we will probably triple the one for this year, and without the start, just, you know, the SBA guaranteeing the bank's money, we would not have been able to even get off the ground.

Originally, I occupied 9,000 feet, I have already had to expand that by an additional 3,000 in order to accommodate the business that we are doing.

All the people that I employ were unemployed when I hired them. So, I think we have done—we have taken them off of the unemployment lines and they are paying taxes now where they were not before.

I can only say that without SBA, there is no way I could have gone out and done what we have done, and, you know, it would be silly for me to see the SBA stricken from the budget.

Mr. TORRES. You are aware, of course, there is a proposal in Congress to abolish the agency. We are dealing with the legislation.

Mr. SHUEMAKE. Yes.

Mr. TORRES. Well, our purpose is to bring you all together, to give us testimony, so that we will find out if, in fact, the program is working.

Mr. SHUEMAKE. Fresno State has an assistance program where they provide counseling. I had earlier signed a card saying that I would like some help in marketing because I was not sure exactly how the best way to advertise, in my field was, because we have got a pretty transient market; the truck drivers come in and, you know, they are gone with the crops.

So, I went to get some help. They sent out at no charge to me, two students that spent a whole semester going through the media and Fresno and doing a marketing research program that if I would have had to pay for would have cost me a lot.

It taught those students a lot, you know, and I am sure that also was backed by the SBA through the Small Business Administration's school approach, and that was quite helpful. They said direct mail was the way to advertise for my business, and it saved me a lot of dollars, you know, of trying something out, seeing that it did not work. So, I was glad for their assistance.

Mr. TORRES. I must add to the record that that is a very commendable aspect of Fresno State, which has a very active and successful small business institute, SBI's as they are known.

So, this, again, proving that the SBA program provides technical assistance to many avenues to aspiring business men and women.

Mr. SHUEMAKE. Sure. That is really all I have to say.

Mr. TORRES. Thank you very much, sir.

I would like to hear now from Mr. Chuck Hue Gong.

TESTIMONY OF CHUCK HUE GONG, PRESIDENT, FARMERS FOOD, INC., DINUBA, CA

Mr. GONG. My name is Chuck Gong from Dinuba. I started a little business, a grocery market, in Dinuba downtown, with about 4,000 square feet in 1969.

My business keep growing every year, until 1982, and my business was grown, my little grocery store.

So, I decided to open a bigger store. So, in 1983, I do a supermarket in Dinuba.

If it were not for the SBA, my project may still be on hold. However, with the support of the SBA, I was able to do a market and with the SBA loan for about $500,000 and the remainder of my loan was funded by the local bank. With these loans, it enabled me to expand my market from 4,000 square feet to a 15,000 square feet market and now I am hiring 23 more people and offer more to my customers, and help the economy of this area.

I think the SBA is a well worthwhile program. It provides jobs and it helps the economy of this country.

Thank you.

[Mr. Gong's prepared statement follows:]

PREPARED STATEMENT OF CHUCK HUE GONG, PRESIDENT, FARMERS FOOD, INC., DINUBA, CA

I am writing this letter in hope that Congress will not abolish the SBA loans but continue it, and maybe even expand the program.

If it were not for the SBA, my project may still be on hold. However with the support of the SBA I was able to get enough financing to get the loans quicker and to operate sooner.

My SBA loan was for $500,000. The remainder of my loan was financed by a local community bank.

With this loan it enabled me to expand from a 4,000 square foot market to a 15,000 square foot market, to employ 23 more people, to offer more to my customers, and to help the economy of my area.

SBA is a well, worthwhile program, please continue it.

Mr. TORRES. Thank you very much, sir.

A very good statement.

Mr. James Josephson from San Joaquin Helicopters, Inc. Is that correct, sir.

Mr. JOSEPHSON. Right.

TESTIMONY OF JAMES JOSEPHSON, SAN JOAQUIN HELICOPTERS, INC., DELANO, CA

Mr. JOSEPHSON. Our business is kind of a special use type of a business. It was incorporated in 1975 for the aerial application of insecticides and ground application. We incorporated in 1975, and capitalized approximately $30,000 of our own money, my partner and myself, which we had saved up from previous jobs and different opportunities that we had been in.

I personally was a pilot for another company for 5 years, and was able to save enough during that particular time to go into business. Like most American small businesses, they save their money to get into a business.

We started with two helicopters and two spray rigs. My partner being the expert in the ground spray business and myself being the expert in the aerial application. We felt that it was a unique opportunity, in our area, Delano, because most large farmers or farmers, in general, use both aerial application and ground application.

So, we decided to joint venture a company and go to the farmer with the full service type of a business, where we could do both the ground application and the aerial application.

We were successful in our business and grew at a projected rate that we had anticipated through 1975, 1976, and 1977, and we are showing—we have existing bank loans with the First Interstate Bank and then we switched to a local bank in Porterfield, CA.

At that particular time, we picked up some rather large accounts and we were basically—our equipment that we had, we had certain equipment loans and a certain line of credit of approximately $60,000—operational line of credit.

At that time, we had an account that we could pick up when we needed additional funds to build additional equipment. We went to the bank and the bank—actually, we went to several banks and with our existing program and our success rate and everything, they said well, everything is fine except that we just cannot go out—we were looking at approximately $300,000 to $400,000 for additional equipment, and they just could not—similar to the trailer salesman, we could not—we did not have the equity to go out and borrow the additional moneys.

They suggested the SBA. We went to the SBA. I should say our banker got to the SBA, wrote up a proposal to them, and we were successful in getting the money and continued our growth expansion.

We went 1 more year and applied for another loan. The first one was approximately $346,000, and then the following year, we applied—we had another contract. We saved up and we needed an extra $130,000. So, we went and received another, a second, loan from the SBA.

What this enabled us to do was we were still able to not tie up all of our credit in our local bank for equipment loans, and still have our operational money because we felt that to be able to capitalize and not to have the operational money is probably the biggest cause for small businesses to fail. Not that they do not have work and do not have business, but they do not have capital, and, of course, under-capitalization is a big problem.

At that point in time, we continued on, and, then, in 1980, we were able to pick up a contract from the State of California for the Medfly thing up in San Jose area, and I feel personally that without the help of the SBA getting us to that point in that time, we would never have been able to have the equipment and be able to extend the credit at that time to be able to go out and purchase extra equipment that was needed for that specific type of a job.

It was a tremendous cash outflow on our part of almost $2 million. We had to go buy additional helicopters and additional support trucks to take care of that volume of spraying that was done up there.

We were very successful in that operation, and at that point in time is when we were able to get enough cash in that we had paid off the SBA loan. One problem—well, I should not say it was a problem, but one of the things about the SBA that we noticed or the thinking at that time was that the interest rates during those years were up as high as 19 and 20 percent.

Our loan was 2 to 3 percent over prime, and, of course, at a point in time, they were paying almost 21 percent interest on our note. The nice thing about the SBA was that it did not increase your monthly payments. Your monthly payment was predicted out over a 7-year period of time, and we were able, at that time, to still maintain our constant monthly payments; it would have prolonged your principal payment, which meant that instead of a 7-year payout, it would probably have been 9 to 10 to payout.

We chose to pay our loan off at that time because, in fact, we had the cash available to do it and it would have lowered—you know, it would have saved us a tremendous amount of money in interest.

There is no way that we could have—our business at that point in time would have ever been able to pick up this particular loan without the guarantee of the SBA.

Our program, I believe it is a section 7(a) program, which is the guaranteed loan, which is your pretty standard loan program. It enables local businesses and small communities, in dealing with small community banks, like the individual who gave the talk here the last time, who is a small bank, there is no way they can go out and do any—I think they are only allowed 10 percent of their net worth of their bank to any particular borrower.

So, consequently, they can take a guaranteed loan and sell off that loan, and that enables the local people that want to build business, can maintain a community bank. They do not have to go with a large major bank. They are hot and cold, the major banks.

In other words, sometimes they will with you and all of a sudden, they decide they do not want anymore financing, so they just do away with us. Local banks tend to deal with you and in this program, definitely, it benefits any business that wants to borrow more than $100,000, which is about the limit of most community banks to give an individual. That does not make that business expand, and I feel it definitely is a worthwhile program, even though we are not involved with SBA at this time. It certainly got us to the position of where we are today.

Mr. TORRES. Thank you.

Just the bottom line on this. You started out, two of you, how many people are you employing now?

Mr. JOSEPHSON. Well, we have worked up to where we now have 100 employees. We have 65 full-time employees, which are year-round salaried employees. We have the balance in part-time employees. We are predominantly agricultural labor. Probably 98 percent minorities.

We are working with the labor that really is the most stressed at this point in time, and it has just worked out real well for us.

Mr. TORRES. And, my last question, bottom line, what are your sales?

Mr. JOSEPHSON. Our sales right now are about $6½ million per year. Gross sales.

Mr. TORRES. Thank you very much.

Thank you all for taking time to be with us this morning, and providing such excellent testimony to these field hearings.

Thank you very much.

We are going to take a brief pause here, a break. We have been at this since 9 a.m. and we are going to recess for about 10 minutes.

We will then resume our panel discussions with the direct business loans, Mr. Charles Ellis, Mr. Lloyd George, Mr. Carlo Colzani and Ms. Lorraine McNalley.

[Break.]

Mr. TORRES. Let me reconvene our field hearing once again, and ask the following people to join us here at the table to provide testimony to the committee, in this order, Mr. Charles Ellis, Ellis Food Processing, Mr. Lloyd D. George, LDG Timber Enterprises, Ms. Lorraine McNalley, California Business Machines, and Mr. Robert Martin, of Neo-Tech Health Care Products.

Would you please join us up here at the table? If I may ask our witnesses this morning to take these microphones and put them around your neck or on your tie, whatever device you have there, your lapel, yes, and when you speak, speak clearly into it so that our recorder can document your statement.

We are going to ask you to provide for us in the order that I called you here about a 10-minute statement. Try to keep it as short as you can.

Subsequent to your statements, I will ask you some questions relative to your comments. Sometime in the course of your statement, you may express a salient issue, and I may interrupt you and ask you to explain that comment. So, why do we not begin then with Mr. Ellis.

TESTIMONY OF CHARLES H. ELLIS, ELLIS FOOD PROCESSING, DELANO, CA

Mr. ELLIS. Mr. Chairman and the rest of the panel, my name is Charles Ellis, of Ellis Food Processing, and as the outline states, we started in 1968.

My faith in God, country, family, and the SBA Administration because what you see sitting here before you is a reflection of the philosophy of the Small Business Administration, and I noticed throughout the others who testified, you asked them about certain areas of the Small Business Administration, whether they had any experience in those programs.

I think I have had experience with all of them, at least all that was mentioned here today. We, as a company, had some ideas of furthering ourselves. In 1970, we went to the bank, the bank owned the building that we were interested in purchasing.

The bank could not sell it. Of course, they were interested in selling so what they said was if we would get a guaranteed loan, they would be interested in selling it to us. Of course, we obtained that loan.

In 1973, the State of California entered into an agreement with the USDA, Department of Agriculture, which is referred to in the industry as the TA Act, which stands for Thomas Akins Act, and, of course, being in the food industry, that agreement was that the government and the state entered into a joint venture for inspection services of the food industry.

But, the bottom line was that many of the processing plants at that time were going to be forced out of business because they could not comply with the Federal standards. When the inspection service started, just to give you some idea of the impact, in 1956, there were 1,500 processing plants in the State of California, and, of course, Mr. Ruiz alluded to this. He did not go into detail.

Mr. Torres. Mr. Ruiz, our former witness?

Mr. Ellis. Yes. And, he obtained a loan for the same reasons that we did.

There were 1,500 processing plants in the State of California, poultry processing plants. Today, there is only 15 that I can count, and to be perfectly honest with you, I can only count 7, but I use the number 15 because it is easiest to figure, and that tells you that there is a 99-percent reduction in poultry processing plants in the State of California.

So, if you prorate that out over a period of 30 years, you are talking about roughly a 3-percent reduction every year.

Now—and this is what we had to deal with, and we had to convince the Small Business Administration to go along with our program, because what had happened was that this gradual falling away, it looked as if the industry was doomed but this was not the case.

If you look at the other side of the ledger, today, there are more poultry products being consumed than in the history of the United States. So, really, what that meant was that technology was the order of the day, and if you could not obtain this technology, you could not compete.

And, I only say this to get to the other point. In 1973, of course, we had this guaranteed loan. Well, when these things started to happen, of course, there was pressure put on our business because it was a new business and we could not meet our obligations.

So, I sat down with the banker and we had a conversation, and he said Mr. Ellis, I am going to have to call your loan, which was understandable because their philosophy is, and I think most of the people that have testified here today will agree, that a bank philosophy is first assets. Next, they want records.

In other words, they want a track record, not only from you but from your industry, and this is what scares them because an industry track record was going just the opposite direction. So, what were we going to do? Made a trip here to Fresno, and I talked to the Small Business Administration, and my pitch was that there was a future for the poultry industry, and my idea was to find the niche in that industry and to serve it, and, of course, if you look at the front page of this thing, you can see that we were in what you would call a specialty item, and it was not something that you could readily get on the street.

And, I sold that idea to the Small Business Administration, and they bought it, they went along with it. So, what we did, they purchased that loan. If it had not been for the Small Business Administration, that one act, Ellis Food Processing would have been history many years ago.

Now, in doing so, what has happened in the years to follow, we have, according to our payroll clerk, last year, 168 employees. Of course, it is understandable, we are a tax-paying entity, and this year, our tax obligation will run probably in the 6 figures.

Mr. TORRES. Payroll tax?

Mr. ELLIS. Payroll taxes and also Internal Revenue taxes, totally combined.

So, not only being an asset to our own community, we are an asset to the country, and I am not saying that simply because we are in business, but I am saying that from the standpoint that we service 18 States.

We service the Defense Department, Agriculture Department. I have heard it said that the Small Business Administration, with their special assistance, creates competition for the normal business man, and I only say that for lack of a better word. But, let me point something out that has happened in our case.

We compete against all the other poultry processing plants across the United States, but we are also, of all of those companies that we buy from, and we buy from the multinationals, but we are also customers of theirs also.

So, if you would talk to the chief executive officer of Swift or Armour or whoever, they would tell you that they are glad Ellis Food Processing is in business today because they carry a credit reference on us, and that is product they would not move if it had not been for the Small Business Administration.

[Mr. Ellis' prepared statement follows:]

PREPARED STATEMENT OF CHARLES H. ELLIS, ELLIS FOOD PROCESSING, DELANO, CA

Owners: Charles H. Ellis, S. Mac Ellis.

1964—Began as a family owned farm-business raising: row crops, game birds, and feeder pigs.

1968—Founded Ellis Food Processing, specializing in custom meat processing and smoked meat products--turkeys, pheasants, bacon, and ham all cured the "old fashion way".

1984—Today, Ellis Food Processing, specializes in custom "hand prepared" turkey rolls.

I. Address: Processing Plant, 828 High St., Delano, CA, Phone: (805) 725-1162. Cold Storage & Main Office, 601 High St., Delano, CA, phone: (805) 725-7671.

II. Composition of business: Corporation, Smith Mac Ellis—50 percent of the stock; Charles Ellis—50 percent of the stock.

III. Date business started: September 8, 1968, in Poplar, CA, July 3, 1970, moved to Delano, CA.

IV. Type of Business: Poultry-Further Processing 1. USDA inspected products; 2. USDA-AMS grade products; 3. Thirty-nine employees.

V. Small Business Administration: Two direct loans—real estate—both loans are current; 8(a) Program participation; business training proteus (6 weeks of school).

VI. Company's marketing areas:

1. Department of Defense, 18 installations across the United States, export to the Far East. 2. Department of Agriculture—AMS service 6 western States. 3. California

State Department of Education school districts of California. 4. Louisiana State Department of Education, Orleans school district. 5. Wholesale and processing companies in: California, Arizona, Utah, Wisconsin, Washington, Oregon, South Dakota, New Jersey, Arkansas, Missouri, Illinois and Idaho.

VII. Summary: It is our belief that Eilis Poultry processing would not have survived the decade of the seventies without the assistance of the Small Business Administration. The past 10 or 15 years have been turbulent years for the poultry industry, much like some other parts of agriculture today. We believe our company's existence is a perfect example of how the Small Business Administration complements the business society in America.

Mr. **Torres**. Mr. Ellis, you mentioned in your comments that you do business with the Department of Defense and the Department of Agriculture, Board of Education.

I take it you are an 8(a), a certified business?

Mr. **Ellis**. Yes; I am an 8(a) certified business, and I am sorry that I did not mention that. We are also—we have been in the 7(j) program. We have had some assistance through SCORE.

We have had numerous of consultants——

Mr. **Torres**. I am glad to hear you mention SCORE, and I am glad to hear you talk about consultants.

Let me ask you, have you had access to the California State University at Fresno and their Small Business Institute?

Mr. **Ellis**. Well, at the time, no, not really. When we were searching for help, that had not been developed.

Mr. **Torres** I see.

Mr. **Ellis**. But, SCORE was there. So, we used SCORE instead of the university. I am aware of it, but no, we have not used that program.

Mr. **Torres**. I might say, just in reference to that, that I am glad you are aware of it. We had some previous witnesses who said that they had utilized the Fresno State Small Business Institute, and as you know, it has done a commendable job. They are one of the largest SBI's in the country. I have a letter from Mr. Harold Haak, the president of the California State University at Fresno. I am going to use my prerogative, as chairman, to enter that letter into the record so that we have it as part of our discussions this morning.

[The letter referred to above follows:]

California State University—Fresno,
Fresno, CA, February 28, 1985.

Hon. Richard Lehman,
House of Representatives,
Longworth Building, Washington, DC.

Dear Rick: As President of California State University, Fresno, I am writing to ask your support for Small Business Institutes, which are threatened with possible elimination.

Our University has one of the largest Small Business Institutes in the nation, and it provides free management consulting to more than a hundred small businesses annually. The program is partially supported by the Small Business Administration and has literally saved many local businesses.

In addition to providing assistance to local businesses, our small Business Institute has provided hundreds of students with important training in the value and contributions of small business. Student teams spend between thirty and sixty hours per client, and by utilizing their efforts services are provided on a very cost effective basis. I should note, too, that the faculty supervision of these student efforts has been very praiseworthy.

I urge your support of the Small Business Institute program. It is a worthwhile program that indeed deserves continuation.

Sincerely yours,

HAROLD H. HAAK,
President.

Mr. TORRES. Please continue, Mr. Ellis.

Mr. ELLIS. Well, the only thing that I would like to say in adding to what I have already said, and I would just like to read the summary that I have on this outline.

It is our belief, and when I say our, I mean the other stockholder, who is my brother, I am president and he is secretary-treasurer of the company, it is our belief that Ellis Food Processing would not have survived the decade of the seventies without the assistance of the Small Business Administration.

The past 10 or 15 years have been turbulent years for the poultry industry, just like some other parts of agriculture today. We believe our company's existence is a perfect example of how the Small Business Administration complements the business society in America, and, of course, I am not here to knock the banks or any other lending institution because they serve their purpose.

But, in the proposal to abolish the Small Business Administration, it has not been explained to me who will fill the roll that the Small Business Administration performs today, and I would like that explained to me and the public, if it is possible.

But, that is one of the things that they have not addressed, and I would like to hear that, if someone knows.

Thank you.

Mr. TORRES. Thank you, Mr. Ellis, for your excellent testimony, and, again, an example of the kind of hard work and planning that you have brought about, along with your brother, in this phenomenal growth and the kind of service you have provided for the community.

I cannot give you an answer to your question. Obviously, that is the basis for these field hearings, to hear from you, to have you expound upon your own experiences, and, then, hopefully, we can return to the House of Representatives and report to the other Members our findings, and, then, at some point, we can have that kind of answer for you.

Thank you.

Mr. George.

TESTIMONY OF LLOYD D. GEORGE, LDG TIMBER ENTERPRISES, INC., OAKHURST, CA

Mr. GEORGE. Mr. Torres, members of the committee, I am Lloyd George. I am representing LDG Timber Enterprises.

We are a small corporation involved in lumber harvesting and site preparation with the Forest Service. We were in business for 2 years before we became incorporated and we employed between two and four people at that time.

We were successful for that number of people. We were not able to grow because we did not have enough money to expand the business or go into a larger operation involving logging, and it was fairly well reserved for—even though they have small business in logging, it was reserved for mainly the larger companies. It is nearly a monopoly in some areas, particularly in our area, and who buys or sells timber.

We did not have the assets in order to get involved in that. It would probably take $150,000 to $200,000. That was almost like going to Vegas and having a crap roll. That was comparable to what risk it was involved in it.

We started off, after incorporating, we purchased one small timber sale, so we would have a job for the people that were working for us, so that we could say we got a job next spring, we have a job, instead of waiting till next spring and going to the larger companies and asking them, "can we work for you?"

If our prices were cheap enough, right on the margin of surviving or not surviving, sometimes we got a job. Sometimes we did not. It was very hectic on all of us to worry about whether or not you are going to have a job next year.

So, we purchased a small job with all the capital that we had. We were able to do that job, but by making that purchase, the larger businesses decided that we were not going to be allowed to continue operating in the area.

So, we had made a little bit of money on that. So, we expanded our operations slightly, but we had a problem with timber. We were only able to buy fairly high quality timber that was in the insect damaged areas, but we could not sell everything here locally, and if we had to truck it some place, the trucking cost was prohibitive to do anything.

The Forest Service required complete cleanup. You cannot just buy the tree and sell the main portion and not take care of the tops or the rotten logs. They make you take care of everything.

So, we were faced with a real problem, what do we do. We could truck the better quality or 50 percent of the timber north and still come out—break even on the job, but we had this big problem with the little trees and what to do with them.

We went to the SBA and asked for a loan, and we got a direct loan to buy a small portable sawmill, and we could take these little logs or rotten tops and process them and because of the way—if we ship a truckload of logs on a logging truck, we can ship three times as much as if we ship a truckload of lumber.

The waste is not that much, it is the way that the measurements come out, it comes out better. So, we could convert this product that was a losing proposition that we could not sell otherwise into a profitmaking proposition.

So, we were able to continue, increased our number of employees from 3 to 4 to 8 or 10, and we were fairly successful at that.

Finally, the mills decided that they were not keeping us out of the area that way, so we were more competitive and it was not a situation where we always had a job, but we were kind of let live and still stay in business.

We wanted to go into some other areas where we did not have to face this competition all the time. Competition is good for the business, but you cannot butt your head against the wall every day and still survive, especially when our profit margins were—as a company now, we run in the 3- or 4-percent range. A lot of people talk about 20 percent or something. Our real margins are 3 or 4 percent. We are perfectly happy with that, and—but, if we make a mistake, it is very easy to make a 10-percent mistake and lose 2 or 3 years' worth of whatever you made in investments.

So, we applied for a certification in the 8(a) Program, and it took us a long time to enter that, but we were going to enter an area that nobody else was really interested in, in the reforestation in the forest.

The larger companies go in, get the lumber out, leave the rest to the Forest Service, they will clean it up and take care of that. Our company is fairly young and our outlook was a little bit different. We would like to see the forests still here 50 years from now, maybe our kids can do some logging.

So, we saw an area that we might be able to fit into that was not real competitive. During the good times, people would work for the logging company—logging was more profitable. In the bad times, when things went down, they would go into the clearing and piling and site preparation work, just to maintain their equipment.

So, the Forest Service had a real problem with this fluctuation up and down. They could not predict their budget and plan their reforestation. If there were great times in logging and prices were too high, they could not do any. If it was poor, they did not have enough management or enough people to supervise that.

So, their manpower was fluctuating. We talked with the Forest Service for a couple of years, and tried to convince them that there was a need, that we would be there to do this type of work. We finally convinced some people in Fresno here, and they helped us out and through the Forest Service's help and the SBA's help, we created a job, and it was something that was being done anyway, but we said we can improve this.

I have a degree in forestry, and I have a master's degree in biology, and I would like to see some of the practices that are just talked about actually performed. I have my own ideas of what should happen in that reforestation, so I worked with the Forest Service.

I do not give a whole bunch of input, maybe I give 1 percent, but that is an improvement on our part, and we get to have a say-so in what is going to happen on the cleanup and whether that—it is going to look like a disaster area when you get through or it is going to look like a park.

For economic reasons, it is not going to go from one side to the other, but we can emphasize more, keep the costs down and keep—bring it back into a park like setting or bring it back into a production setting.

So, the SBA, through the 8(a) Program, in allowing us to become a part of that, we are directing another six people through that program, and we will probably add two more people this year. They will have a 9-month job out of the year where they were not working before.

And, we get to have an impact on the national forests in this area, on the reforestation and what the logging practices are going to be.

As far as the SBA, when they are talking about the SBA not being around to help anybody in these things or it could go to some other body of the Government, the SBA has—it is not just money or loans or anything; they provide the assistance.

When we were debating over what we should do with those little logs, we had a project at Fresno State, with the help of the SBA's SBI Program, that they did a study for us. We proposed it. Maybe we could run this small portable mill and do that type of work, but we did not know and we could not take the risk because there—we were already losing money.

If we spent additional money, even if it is a SBA guaranteed loan or if it is our money that we are able to get some place, we do not have the opportunity, when we are working on such a narrow profit margin, to risk that.

So, SBA, by guaranteeing loans and by providing the direct loans, they buffer that a little bit. By providing the service and the management to help to make the decision, we can make a better decision than we could on our own. We do not have the manpower or the knowledge to be able to do that.

So, through—we had some SCORE people come out and talk to us, and they recommended that we have a study made, market study, and we did this through Fresno State and through the SBA, and we were able to determine that this was going to be a profitable operation.

So, it is—we have used the Direct Loan Program. We have used the market assistance, and we used SCORE in a small way. We continually use the SBA's advice.

We call up, we talk to the banks, we talk to everybody. We do not use everybody's opinion, we use ours. The more input that we get, the better, and SBA is very helpful, especially in this area, on their advice.

We can call up and say we have got a problem here. Occasionally, in the winter time, since our job is seasonal, we have a problem with cash flow. We have plenty of cash in the fall, and we do not have a problem making payments then. When it comes winter time, we are not working. So, we have a hard time. They helped us restructure an SBA guaranteed loan with the bank so that we only make payments in the summer time and in the fall when we were working, and this was a great help.

It kept our cash flow going, and it gave us something that we could work with. So, we are very appreciative of SBA's help and especially the Fresno branch. We have increased our employees now up to in the 20 to 25 range.

We have gone from a seasonal job before that was less than 6 months, a lot of times 3 or 4 months of the year, and now we are a 9- or a 10-month operation, and we are right on the verge through working with the Forest Service to becoming a 12-month operation, where we do some of the logging and some of the cultural practices in the forests all year around, instead of having logging roads and erosion that you can see in the summer time. We are doing some of this work over the snow, through the help of the SBA 8(a) Program.

With the direct loan, we purchased a machine that picks the logs clear off the ground and we can take them out of the forest without making any disturbances on the ground.

So, we are allowed to do that in the winter time, and where it was not possible before, and without SBA's help, we would never have been able to buy such an expensive piece of equipment.

Thank you.

Mr. TORRES. Thank you, Mr. George, for excellent testimony on your own experience.

I would like to hear now from Ms. McNalley.

TESTIMONY OF LORRAINE McNALLEY, CALIFORNIA BUSINESS MACHINES, FRESNO, CA

Ms. McNALLEY. Good afternoon, Mr. Torres, and gentlemen on the panel.

My story, perhaps, is not as eloquent as the previous gentlemen, and I felt in my outline that I wrote that it was difficult to become a little personal yet make my point.

Mr. TORRES. Make sure we can hear.

Ms. McNALLEY. Yes. All right.

I have not put it in there, but I think it is pertinent to the facts today, that I was born in this area, my parents and grandparents, and my parents learned to be very grateful for living in this country, and that each generation has pulled themselves up by the boot straps.

So, I came up learning hard work and appreciation and being good to my fellowman and all that. So, I left the farm and became a registered nurse, sort of against all odds, and that only pertains in that I was trained for that, never dreaming that I would be in the business world.

I was married, had five children, and for 9 years did not work at all, and, then, I went back into the hospital work and raised my family, did that night and day, and then at a certain point, the California Business Machines Co. was started, was founded, 31 years ago by my husband, his brother, and one other gentleman, who had worked for a large company, like Remington. They were service and sales, and started this business on each member of those three people borrowing $2,000 from, in my case, a family member, so forth, and not knowing where it would go.

And, leaving good jobs for that and started with a little hole in the wall, just down the street here, on Inyo Street, grew, moved to a larger location, and during that time, bought out the first partner and then about halfway through—so, this business is 31 years old.

About halfway through, bought out the brother and along the way, there have been some recessions and so forth. We have borrowed from the bank and at the going rate of interest, but that is where I entered the business. You know, for those loans, go to the bank, empty the waste baskets, and, so, quite by accident, I became involved in this business.

I really always hated tedious work. Always did not like banking or filing or—then, I posted every other aspect of that business, and at one point, I—it was not very popular for women to sell down the street, so to speak, was not being done. I felt that I wanted to do that, and it was not very popular with my husband nor anyone else, but I did it anyway because I am kind of headstrong.

This was all, I think, necessary to make my point, is that I did go out, I did learn the equipment, and all during this time, first slow progress, and all of you know, I think all of you have had some experience with the rapid pace that now, particularly, technology is changing.

But, nevertheless, at that time, I went down the street, I knocked on doors, I learned more about my equipment, I availed myself of seminars and tapes and books and everything I could, and for a period of time, worked nights at the hospital, days in the office, and still took care of my family. We have five children, which is important here, too.

So that, finally, I knew all the aspects of the business, and during this time, my husband, forgive me, he is dead, I do not mean to be disrespectful, but he had been a good serviceman and he was a good owner and a good manager in the early days of the business, but, then, he did not keep up with progress that was happening all around him.

He sort of become a serviceman, and, meanwhile, the business was kind of falling apart and so was the marriage. And, so, there is a point at which the acceptable thing might have been to—it was at that point to get a divorce, to—for me to accept some sort of settlement, and, then, by then, I had given up my R.N., I could not go to work for the competition in town, just could not do that. That might have meant leaving Fresno, my parents, my children, my friends, and going where, to work in the business that I knew.

And, somehow it occurred to me that I could do a better job with that business than he could, which was not a very popular thought, and I proposed that, and I will skip all the details of how it came about, but it did.

But, I borrowed—I did not have anything. I had made a lot of money. It was not managed well. So, 4 years ago, I just had enough faith in myself that I personally went out and borrowed money from my own children and my mother, and then the price of the business suggested to me at that time was a $100,000, and I borrowed $30,000 and owed him $70,000.

So, that is the way it was going to go, and when I looked at the files and the records, it was quite a mess. It was much worse than—I had not concerned myself with that. I knew it was bad, but there were recourse loans and there were—I mean, recourse sales, recourse leasing, financing and so forth, and things had gone bad.

Mr. **Torres**. So, he agreed to the sale?

Ms. **McNalley**. Yes. Against his wishes, and—but, I prevailed and it did happen.

Upon really looking close, I immediately brought in a consultant which was very expensive, but I felt it necessary to get the picture very quickly, to enlighten my employees as to what was going to happen, what was wrong, what was going to be right, and you have the opportunity to stay or leave now, and at that point, I started to work very, very hard, and during this time, it became obvious that I had to have new products, had to get more training, hire more people, and the cash was not there because I had to catch up with accounts payable, clean up a lot of things, keep the faith of the mmanufacturers, the distributors.

So, it was difficult times, but I started to clean up the act, and I happened to know a lady, Nita. I had heard about SBA loans and all I ever heard was they are so difficult, it is not worth the trouble.

And, so, that was the attitude that I had had, that, you know, could I put a package together and could I in time to save the business and continue, so I needed working capital.

Mr. TORRES. Did Nita help you in this?

Ms. MCNALLEY. Nita helped me.

Mr. TORRES. Helped you package your proposal?

Ms. MCNALLEY. A young lady who is now in Sacramento who was head of Nita at the time, and I happened to know her, and I asked her would you help me, and she helped me put the package together, and told me what to do, and we presented it. It was not easy to get the loan.

They really put me through the paces, but eventually they did come through, and it was, I feel, the injection that was needed to keep that business going.

I have not gone back and researched that through every practice, but I think that we are about 10 employees at the time and maybe about $80,000 per month in sales and services.

Mr. TORRES. $8,000 per month?

Ms. MCNALLEY. $80,000.

Mr. TORRES. $80,000. I am sorry.

Ms. MCNALLEY. Now, there are 16 people, and we are at a jumping off point. I have paid my SBA loan on time. I have——

Mr. TORRES. It was completely repaid?

Ms. MCNALLEY. No, no. Just on time, and I feel that the business and the foundation has been put in place.

To state again, I have 5,000 square feet of leased space. It is a good location, but we have outgrown it. We have 16 people, the business is growing by leaps and bounds now, and I have contemplated very seriously to start to look into larger space perhaps of my own, and I know somewhat about the 503 plan, and I had hoped that if I can present my case properly, that perhaps I could avail myself of that plan.

So, I am very disappointed in the possibility that SBA may no longer be there when I need it. Of my five children, all of them have helped and worked in the business and, presently, my 31-year-old daughter is a college graduate, is head of the typewriter, word processing, that division, copiers, a separate division—

Mr. TORRES. Within your own business?

Ms. MCNALLEY. Yes. Within my own business, and my son, Tim, who is 34, has actually spent 20 years in that business, and he is service manager and also an excellent salesman. Just all around well-trained people.

So, at whatever time in the future—I am sure everybody is aware I am not 21, and going strong and grateful for it, very healthy, but whenever at which time I cannot continue, those two young people will continue the business and it has been with the help of the SBA that I have been able to grow, to succeed people. Therefore, I feel we have contributed to the economy, supplied continuous work for these people. These are highly trained people. Before, you sent them away to school once a year. Now, you send everybody once a month to school to keep up with the technology and it is very expensive.

So, it is very demanding, and our people are highly trained and well paid. Of course, we do have delivery men and such, but I even employ part-time a daughter of mine who is a teacher. I am very proud of my family. One son is an architect on the coast and one is a teacher and one works for IRS, and I feel that I have contributed to society by hard work and determination.

I am grateful for where I live and my health and my ability, my ableness to do so. But, without the help of SBA, 2½ years ago, in fact, I thought it was longer until I looked it up, I think perhaps—I am sure I would have gone under, but I feel that perhaps I could have continued and competed because there are some very large operations, such as Xerox and IBM and if you are not on your toes, if you are not good, if you do not have good product and a good service, then you cannot compete with the big boys.

And, I think it has made it possible for me to continue to grow and expand and compete with the bigger operations. We have an excellent reputation in Fresno, and I would like to continue to do so.

I might mention that I have not used SCORE and the Fresno State group as much as I might have, but we have excellent support. Where I am from, a group called NOMDA, which is National Office Machine Dealers Association, is a very strong group, they provide seminars and tapes and they compiled all the situations that their dealerships across the Nation have, the problems they have experienced and how they solved them, management, expertise, so forth.

I have had a great deal of help from the trade magazines and from the NOMDA seminars and other dealers, so forth. So, I feel that, you know, perhaps I could have received help from those people, maybe still will, because I need to relocate and maybe they can help me in that area.

Mr. **Torres**. Thank you. Thank you, Ms. McNalley. Very enlightening testimony. I want to commend you for your many accomplishments. Indeed, you are a woman of vision and perserverance and hard work, and the bottom line is we see that you and your family and your employees are contributing to the economy and we wish you well.

Thank you for being with us today.

Ms. **McNalley**. Thank you.

Mr. **Torres**. I would like to hear from our next witness, Mr. Martin.

TESTIMONY OF ROBERT A. MARTIN, OWNER, NEO TECH HEALTH CARE PRODUCTS, PINEDALE, CA

Mr. **Martin**. Thank you. Congressman Torres, members of this committee, my name is Robert Martin, and I am the owner of Neo Tech Health Care Products in Fresno. Neo Tech is engaged in the medical and dental supply business, and we serve the central and central coastal regions of California. We are independent representatives for approximately 60 different manufacturers.

Neo Tech recently received a Small Business Administration loan in the amount of $50,000 from the Fresno office. The process of obtaining this loan was efficient, orderly, and well managed. This loan has allowed the company to expand by adding two new employees as well as additional inventory. The expertise supplied by SBA and SCORE has proven to be invaluable. Without the SBA loan, our company would not be here today and our projected first year sales of $750,000 would never be realized.

The validity of SBA can best be seen in the great American dream in this land of opportunity. All of us have the opportunity to be the best we possibly can be, and all of us have the opportunity to be pioneers who are willing to take a risk to discover new frontiers. New frontiers are often discovered by the individual wiiling to pursue an opportunity.

A small business today is more than just a pioneering risk, it is oftentimes the life savings, the home and the family of the pioneer. Many dreams are broken by the inability of small business to obtain capital to complete that pioneering step. It is sad to think that a new technology, that is, cancer cure, famine cure, or new energy source, is not discovered because someone would not take the risk to see that dream completed.

The SBA in Fresno has been the answer to many dreams faced with the problem of wagering everything in hope that the return would be of some benefit to all mankind.

The SBA, in cooperation with the Chamber of Commerce, SCORE, and the local university have sponsored workshops designed to help the small business succeed, and you are all cordially invited to be my guest at the next workshop on March 27, 1985, at the Chamber of Commerce from 9 a.m. to 4 p.m. This constant effort to educate, inform and support the existing prospective or new small business person has, in my opinion, been instrumental in helping many achieve success as a small business person in this the land of opportunity.

This hearing today is to determine whether SBA should continue to exist, whether or not Government should take that risk.

A few years ago, several hundred thousand people were faced with the possibility of unemployment. The economy was already weak and the addition of this many unemployed, unproductive people was a thought neither Republican nor Democrat wanted to see. A risk-taking pioneer stepped forward to take an opportunity to turn around an ailing Chrysler Corp. and set standards for an industry never before seen. Today, we are all proud Americans to see this shining beacon of success.

Some will say, "But, Chrysler could have failed", and this is true. However, when you weight the calculated risk, the Government was really the big winner. People were employed, the loan was secured by collateral, money was flowing into the economy, taxes were being generated, and, above all, we once again were reminded that we can do anything we put our minds to.

Small business may not be a giant Chrysler Corp. but many small businesses, however, are supported by Chrysler. The same facts that apply to Chrysler apply to small business. Most of the loans are secured, to some degree, most small businesses employ three people, who would otherwise be unemployed, who generate dollars flowing into the economy and taxes into the Government.

The risk in the worst case seems minimal if the Government recovers some of its funds and has helped employ thousands.

If all the small businesses who have received some form of SBA assistance were to close tomorrow, I do not think either the Republicans or the Democrats would want to face the wrath of hundreds of thousands of unemployed people, numbers that would make Chrysler look small.

Members of this committee, I urge you not to support the elimination of the SBA. Do not shut off the last hope for future Lee Iacocoas, Dr. Jarviks and others. Do not deprive the future of mankind by saying small business is not worth the risk. If the risks were not worth the price paid, the Declaration of Independence would still be a great dream.

In closing, I would like to leave you with the following thought. Why would we want to eliminate the only agency of Government that I know of that generates more dollars than it costs?

I thank you for allowing me the opportunity to appear here before you today and would be more than happy to answer any questions about my personal loan.

Mr. TORRES. Thank you, Mr. Martin. Excellent testimony. I can attest to your comments on the Chrysler situation. I was in government at the time that that was a great issue of consternation and discussion. I have seen the recovery by the Chrysler Corp. Indeed, we are all proud that it has been able to payoff its loan ahead of time. Mr. Iacoccoa has done a valuable job in bringing that corporation back to productivity.

I am a former Chrysler worker. I appreciate that, and I think that with that kind of vision, we can transfer that to the kinds of needs that small businesses have across this country, SBA being the avenue for assisting them in a way that you have been assisted, which bodes well for our country.

I want to thank all of you for coming here today. As I said to the other groups, taking time from their own busy schedules, to be with us, providing this very important testimony to our committee.

We will, as you know, travel throughout the country taking similar testimony from various sectors of our national community. I hope that this will provide the record whereby we, as Congress, can debate this in the House of Representatives and prevail upon the President perhaps to not proceed in his proposal.

Thank you very much.

Mr. TORRES. We are pretty much on schedule, and we would like to now put together the next panel, which is concerned with direct business loans.

I would invite the following people to join us up here at the table, Mr. Paul Honkavaara, Mr. Lee Davis, Mr. Foster, and Mr. Colzani.

Gentlemen, would you please join us?

For the benefit of our recorder, I would ask that you place the microphones around your neck or your lapels. All right. Mr. Colzani will join us momentarily. Mr. Foster is not here.

Mr. PFEIFFER. Mr. Honkavaara could not make it.

Mr. TORRES. I see.

Mr. PFEIFFER. And, I am Steve Pfeiffer, and we work together.

Mr. TORRES. Very good.

Mr. PFEIFFER. And, he is much more eloquent than I am, but I think I can make the presentation.

Mr. TORRES. In presenting your testimony, identify yourselves and our recorder will duly note your names.

We will proceed with you, Mr. Pfeiffer.

TESTIMONY OF STEVEN PFEIFFER, MOUNTAIN EQUIPMENT, INC., FRESNO, CA

Mr. **Pfeiffer**. My name is Steve Pfeiffer, and I am in sales and marketing, the director, from Mountain Equipment, Inc.

Were it not for the SBA, we would be out of business today. We manufacture here in Fresno, technical backpacks, travel packs, and day packs. In addition, we have a new division called portable systems, which is manufacturing high quality soft cases for portable computers and printers.

We sell our products domestically. We have an Australian distributor, we have a distributor in Switzerland who distributes our products through Europe, and we also sell into Canada.

We presently employ 40 people and 35 are in production, sewing, cutting, etc. We have five in our sales and in our administration. Our annual payroll is approximately $400,000 into the Fresno facility plus what we pay in commissions to sales reps. We are currently growing at about a 25-percent annual rate. The people that we employ in our factory here speak a total of 13 languages, and it is my belief that if we were not in business, they would be largely unemployable, and may I add that we are growing so fast that we expect to double our business within the next 12 months.

We believe that the Small Business Administration is a strong entity that provides a service that conventional lending institutions do not provide. For us, they took a company that had previous management problems and was in—with a bad financial record, and they took the time to investigate us thoroughly.

Besides lending us $150,000, they stood up before the Fresno City Council, told them why they had faith in us and helped us secure an additional $100,000 loan. If we had not received these loans, we would have been liquidated by our bank.

We are presently a rapidly growing, viable company because the SBA took this time, and I would like to make a few brief comments. I recently returned from the Ski Industries of America convention in Las Vegas. I knew I was going to be here, and I took the time to speak with several of my competitors about what I was going to talk to you today, and what I found out was really alarming.

A few years ago, everyone was making their products here. Now, nearly everyone is either already importing their products that they previously made here, or they felt that they had to start importing them soon.

And, this is, for the most part, due to the strength of the U.S. dollar. The ones that were not importing them were reviewing 807 programs in Mexico, et cetera. I feel that what is happening is that because of situations in international finance beyond the control of small manufacturers, the small manufacturing sector of the U.S. economy is being forced to import products and thereby export jobs.

Now, our company is very lucky. We make travel packs and the strong dollar, people traveling overseas means that our products are selling at an increasing rate. We also run an extremely tight ship, but from a national perspective, small manufacturers need the SBA more than ever, and, in addition, I think we need import quotas, trade protections, and export subsidies if small manufacturers, like ourselves, are going to exist on a world basis.

Thank you very much for letting me get this off my chest, and I cannot emphasize enough that we would not be in business if it was not for the SBA, and if the SBA had not taken a personal interest to come and talk to us and see what we were really doing and where we were really going.

[Mr. Pfeiffer's prepared statement follows:]

PREPARED STATEMENT OF STEVEN PFEIFFER, MOUNTAIN EQUIPMENT, INC., FRESNO, CA

My name is Steve Pfeiffer. I am the sales and marketing director for Mountain Equipment, Inc. [MEI].

We manufacture, in Fresno, technical backpacks, travel packs, and daypacks. In addition, we have a new division, Portable Systems which is manufacturing high quality soft cases of portable computers and printers.

We presently employ 40 people; 35 in production and 5 in sales/administration. Our annual payroll is approximately $400,000 and we are growing at a 25-percent rate. The people we employ speak a total of 13 languages and would be largely unemployed if we were to go out of business.

We believe the Small Business Administration is a strong entity that provides a service that conventional lending institutions do not provide.

For us, they showed confidence when conventional lending institutions turned us down.

Besides lending us $150,000, they stood up for us before the Fresno City Council and helped us receive an additional $100,000.

If we had not received these loans we would have been liquidated by our bank.

We are presently a rapidly growing, viable company because the SBA took the time to thoroughly investigate our unique situation and aggressively aid us in securing necessary operating capital.

I would now like to make a few brief comments.

I recently returned from the Ski Industries of America convention in Las Vegas.

I took the time to speak with several of my competitors about this meeting to solicit their opinions. What I found was startling.

Nearly everyone was either already importing products previously manufactured in the United States or felt they had to start importing soon. This is for the most part due to the strength of the U.S. dollar.

I feel that what is happening is that because of situations in international finance beyond the control of small manufacturers, the small manufacturing sector of the U.S. economy is being forced to import products and export jobs.

MEI is lucky, Fresno is a relatively inexpensive manufacturing location and we run a very tight ship; but from a national perspective small manufacturers need the SBA and more. By more, I mean more import quotas; more trade protection and perhaps even export subsidies.

Thank you for allowing me to speak on behalf of small U.S. manufacturers and the Small Business Administration. I cannot emphasize this enough, we would not be in business were it not for the SBA. Now, watch us grow.

Mr. **TORRES**. Let me ask you a question just relative to that statement.

Did you acquire the business at a point when it was in dire straits? Was there some reason why it was not doing well?

Mr. **PFEIFFER**. Yes; when Mr. Honkavaara, who should have been here, took over the presidency of the company, it had been so badly mismanaged that he took over a company that had $140,000 worth of partially completed inventory, and they were on credit hold from everyone. They had $60,000 worth of bad checks out, and this was 6 or 7 years ago.

In my opinion, Paul Honkavaara puts Lee Iacocca to shame. He has really done a terrific job with the company. We are respected, and our reputation has been built on service.

I had a long talk with people in the industry. One gentleman was the export manager for a company called Carry-More. They are the world's largest pack manufacturer and they are hovering like a vulture over the U.S. business because they feel that the U.S. pack manufacturers are all going to be run out of business because of the policies of the U.S. Government and the trade deficit and high interest and the strong dollar, and they are just waiting for everyone to go out of business so that they can come in and take the business away.

And, in his opinion, the only U.S. pack company that really will be constantly strong is a company called Low Alpine Systems, and they do most of their production and sales through a plant in Ireland, and a plant in Korea, and their smallest facility is their original facility in Colorado.

We are very lucky to be here in Fresno. It is a very inexpensive place to operate from, and we have a wide base of people that are skilled in sewing, et cetera, so that I do not think that we could compete as well if we were in a major metropolitan area on either of the coasts.

Mr. **Torres**. The reason I asked you about the disposition at the time of the program was because the opponents of SBA argue that many small businesses are kept alive by Federal assistance, but in reality, they ought to be allowed to die, as in this case.

Your testimony here this morning speaks contrary to that, and this is why I was interested in wanting to know——

Mr. **Pfeiffer**. Well, I have always—basically, personally, I am fairly conservative, and I have always believed that the American economy, if they just let it alone, would do extremely well on its own, but that is not the situation.

I cannot control the fact that my Australian distributor has seen the Australian dollar go from being worth $1.10 1 year ago to 69 cents, and compared to my products, he can buy products out of Ireland or Korea, that is who he is competing against. We are getting killed on the international market.

The only reason people are doing business with us now is because we give great service and they like us. We have an account in Canada, he says the only reason he buys from us is because he can order from us and get it faster than he can from a Canadian manufacturer.

And, if it was not for other people's inefficiencies, we would be in trouble. The strength of the dollar is not only keeping us from exporting more product, but all of my large competitors, the people that used to be strong in the back pack business, people like Kelty, they are taking all of their production offshore, and, so, again, we are importing product and we are exporting jobs.

It is not only the manufacturing sector, it is also the retail sector. Small retail stores are up against large retail stores who are going direct offshore, and bringing in their own products directly from places like Korea, Taiwan.

In order to compete, I may be forced, in the future, to quit buying U.S. fabrics and start buying Asian fabrics, if I am going to continue to manufacture here in the States, and, in fact, we are investigating doing some things on an 807 program in Mexico, which I am sure you are familiar with.

Mr. **Torres**. Thank you, Mr. Pfeiffer, for very good testimony. Please convey to Mr. Honkavaara our regrets that he was not able to be here today, and also for the good work that he is doing.

Mr. **Pfeiffer**. Oh, he has done a terrific job.

Mr. **Torres**. Good.

I would like to hear from Mr. Robert "E" Lee Davis.

TESTIMONY OF ROBERT "E" LEE DAVIS, PRESIDENT, DAV-CO ENERGY AND OILFIELD SUPPLY, INC., BAKERSFIELD, CA

Mr. **Davis**. Thank you. Honorable Mr. Torres and the panel, I grew up on a tobacco farm in the State of North Carolina, attended North Carolina Central University. My work ethic was one of 4:30 in the morning until 6:30 in the morning, then ride the mule down to the gate to catch the bus to school.

Upon my matriculation from North Carolina Central University, I entered the U.S. Navy, and I decided to make it a career. Upon my retirement, I was recruited by Williams Brothers Engineering Co., out of Bakersfield, CA. They are an oil and pipeline service company, and they recruited me as purchasing manager, and I worked there for 5 years, and among all of the schools that they sent me to, I used to tell my boss that I never saw an oil field before in my life, and he told me, say, well, we did not hire you for your oil field knowledge, we hired you for your procurement and finance expertise.

Therefore, during the 5 years that I worked for the company, I learned every phase of the oil business from the drilling to the cleaning up of sour gas, all the way from drilling a test well for a core analysis, all the way to shipping gas and the oil products and all of our products.

After 5 years, approximately 5 years, I got this idea that if I worked this hard all my life for someone else, I should do it for myself. Conversely, there was a sort of a stumbling block in the way in the form of funding and capitalization.

I had personal assets, I had good personal assets, but they were not adequate to get the amount of money that I really needed or wanted to augment what I had to start my business. So, in 1979, I started working on my business plans, cash flow analysis, and doing my marketing, research, and I went to a couple of banks and they turned me down.

I went to savings and loans, and I went to venture capitalists, and one of the young men at this one company I went to said, why do you not apply to the SBA. At this point, I had nothing to lose, so, therefore, I called up—I cannot think of this young man's name from the office in Fresno, but he was a fine gentleman. I tell you, he really—he came down and visited my makeshift office I had. I was still working for the company, and I had all—I want to digress here a moment.

The lady that was speaking said she had a rough time. Well, I did not have a rough time. My forms were all in order, my cashflow analyses, my marketing plan, and by the time I got through filling out all of the required SBA forms, which with my military, I had no problem. So, after submitting all of the forms, they came back and to my surprise, the loan was approved.

And, when I got the letter, my wife had opened the mail, she teaches school at Highland High School in Bakersfield, when she opened the letter and when I walked in from work, she and one of my baby daughters were sitting at the bar there in the kitchen, and my daughter had this beam on her face. I had worked 2 years on this plan, and I knew something was up, and my daughter, she was just busting loose.

So, my wife said well, they approved your loan. So, therefore, I set into motion of getting a place, adequate space because if anyone has been around the oil field business, they know that the equipment goes all the way from 2 centimeters long all the way up to a 25,000-pound drilling rig.

But, nevertheless, the SBA, with that loan, enabled me to open my doors in June 1981, with three employees, not including myself, three additional employees, and I was the salesman, the runner, the bottle washer, and the whole bit. So, we all shared in our duties.

Now, we have approximately five employees with one that is part-time. He is more or less a consultant to me, in some of the repair and service areas that I am taking my business now instead of direct sales. Well, it is augmenting the sales and—but, without the SBA loan, I do not think I could have opened my doors at that time. Maybe later, but not in the style that I had wanted.

Also, during the time, after I opened up, I met another gentleman that came down to visit me from the SBA office, he was with the SCORE Program, and this gentleman, he was undoubtedly one of the finest finance men that I have met in quite some time.

As a matter of fact, he and I sat down and we discussed my financial statement, my first one that I sent to the SBA. I have always made my loans on time. We grossed $975,000 in the year, the previous fiscal year, but the current fiscal year, there was a drop in sales due to a real bad crisis that I had, and I was off for about 8 months.

So, my sales dropped down between $700,000 and $800,000. And, this year, we project to go over $1,500,000. At the rate we are going now, we should hit $1,500,000 some time in late September, if the present trend continues.

And, during the time, the Government Set-Aside Program helped in some areas, but 95 percent of my business comes from the private sector, the major oil companies, public utilities, mostly the oil companies and all the peripheral companies that has to do with the building construction, oil field site preparation, building gas plants and so forth.

The other 5 percent of my business is split between Federal Government and cost plus fixed fee contracts. Without the SBA's support in some of the technical entities, I do not think Dav-Co would have become a reality, and I am more than glad to come here today and testify that to abolish such a viable agency would be a discredit to aspiring business men and current business men.

[Mr. Davis' prepared statement follows:]

Prepared Statement of Robert "E" Lee Davis, President, Dav-Co Energy and Oilfield Supply, Inc., Bakersfield, CA

A STATEMENT OF SUPPORT FOR THE SMALL BUSINESS ADMINISTRATION

I, Robert "E" Lee Davis of Dav-Co Energy and Oilfield Supply, Inc. conceived an idea in 1979 of entering the business world by owning my own business.

Although I had personal assets, they were not adequate to obtain a loan from private sources (Banks, Savings & Loan institutions). After several declinations from various loan institutions, it was suggested that I apply to the Small Business Administration for a direct loan. After being turned down by all of the other loan institutions—one more application would not hurt; there was nothing to lose.

Therefore, I applied to the Small Business Administration in Fresno, CA and to my surprise met with a receptivity that I had not previously encountered. The people at the SBA office in Fresno were courteous, receptive, and just plain helpful. After submitting all of the required paperwork, the loan was approved for the amount requested ($80,000.00). This loan enabled my idea and dream to become a reality. Dav-Co Energy opened for business on June 4, 1981 with three employees.

Although the SBA had loaned the funds for this business endeavor, their help did not stop there. The SBA provided help through small business conferences and technical assistance, and general small business information.

The SBA direct loans have been an asset to the aspiring businessman who has been denied funds by the conventional lending institutions. Without the SBA support Dav-Co Energy would not have become a viable business entity.

Mr. **Torres**. Thank you, Mr. Robert "E" Lee Davis. That is a phenomenal testimony, and an attribute to your hard work. That is pretty good coming from a tobacco farm to do what you are doing now, and I think that we greatly value your testimony.

The next gentleman that I would like to hear from, of course, has joined us late, Mr. Carlo Colzani of Carlo's Villa, Inc., in Los Banos.

Welcome, sir.

TESTIMONY OF CARLO COLZANI, CARLO'S VILLA, INC., LOS BANOS, CA

Mr. **Colzani**. Thank you. My name is Carlo Colzani. I am in the restaurant and bar business in Los Banos, and I have been there for——

Mr. **Torres**. Mr. Colzani, could I ask a favor of you? Would you take that microphone there—no, no. The little one. Just place that microphone close to you.

Mr. **Colzani**. My name is Carlo Colzani. I am the president, but it is a family business, Carlo's Villa, Inc., in Los Banos, CA. We have been in business since 1948.

I came to California from the State of Utah in 1948, in the spring of 1948. I was in business there, but had a time fighting the snow and one thing and another. But, prior to that, I worked in the coal mines. My father was killed in a coal mine in 1942. So, I was the eldest son and I had no other alternative, you had two choices there; it was coal mines or the railroad that went through the town called Helper, UT. The reason it is called Helper, UT, is because it puts—they used to put an old steam engine on the trains, to push the trains over the mountain pass, which was called Soldier Summit, which graduates from about 6,000 feet to about 9,000 feet in 18 miles.

So, I started with a small place there and with help of the bank, who had known my father, and eventually I migrated to California in 1948.

I purchased a restaurant at that time, I was financially able to purchase it on my own. I came from more or less a—my parents were Swiss-Italian people that came—were first generation, second generation, but they were first generation Americans. My father came here when he was 10 years old and worked in the eastern coal mines till he was killed when he was 49 years old. I was the oldest son, oldest of the family, and my mother had a family of three.

So, I eventually wound up in Los Banos. So, I bought this restaurant. I bought the business. The property was in an estate that would not sell the property at the time, and it took me many years. I had a long-term lease that kept adding on to it, and I—when I bought it, I really bought it licensed to sell alcoholic beverages actually. We took all the rest of it to the dump, and, so, then, I did some remodeling and I think I—my wife says I remodeled every 5 years, from the time I had been there, but we graduated up to, we changed the name in 1950 to Carlo's Villa, and made the dining room larger, and put in a new bar. I had a lot of pictures to show, but then eventually it got to this size in about 1960—this is what it looked like before we took the big step in remodeling. I have a wife who was a school teacher and I had only gone to the 12th grade, but she graduated when I was a junior in high school, but funds were very limited, it was during the depression, and I am 64 years old.

I was called into the service and served in World War II as a crew chief on A-20's to begin with in the Pacific, on B-26's and then A-26's.

So, I was very healthy and very aggressive and participated in the small town of Los Banos. A lot of people wondered why I came to Los Banos, a small town, but my wife had had a sister who was also a school teacher in Los Banos and Los Banos was centrally located.

I am telling a story more than maybe what you would want to hear. I do not know, but this is exactly the way it happened.

I, all of a sudden, in 1960, I started becoming ill and I—during the war, I was shot down over Japan and a couple of us survived, which I was one of the fortunate ones to survive, and, so, I spent quite a bit of time in the general hospital in Tacoma, WA. I went back to Utah and eventually to California.

But, Los Banos seemed—at that time, I had no children—excuse me. I had one child, just 9 months old, and, so, I decided to move and find a space. I was very active in all community—was one of the originators of—served on the fair board there for 28 years. I was very active in community activities. Los Banos is quite a sporting town, as far as sports, hunting and fishing and, so, I became sort of known as Mr. Duck of Los Banos.

But, my illness came back to me. From injuries, arthritis from the injuries I had received in the War. Lo and behold, it took a long time for them to figure out what I had. So, I—actually, my business suffered to a certain extent. My wife, she quit teaching school, and came into the business and my son, who is now executive vice president of a large insurance brokerage firm, which has offices in this town, too, called Andreinia Co., and who worked very hard with me and I used to be the chef and I was the janitor and everything because at the time we served dinner, and the town was small, it was only 3,200 people.

So, I had these visions of having a restaurant that I would be more proud of and, so, I just kept putting my money back into the restaurant and enlarging it, making it better, and, finally, they found out that I had a fungus disease. I spent 5 years in hospitals.

So, I was gone from my business most of the time, but through the good fortune of my wife and my son, the employees, I have a couple of employees who have been there 30 years, they held the business together pretty well and I was able to come out and go back to work. I do not receive any Federal pensions. I tried to apply in 1962, but I decided that it was too much red tape. So, I thought I could make it on my own.

So, I went ahead and I still do not receive any, but I have been lucky to receive help from the SBA.

Mr. TORRES. When did you first make application for an SBA loan?

Mr. COLZANI. In 1973.

Mr. TORRES. 1973.

Mr. COLZANI. In 1973. Well, in 1971, we started making some preparations because I was able to buy the land in 1970, the property where the building was, and a part of it on the side of the building.

So, I decided to do it—there was no place in Los Banos where you could—there was a motel that you could make a one stop deal or—so, I was going to build a motel, a 100-year motel. My son was interested in the business and, so, I kind of made a little bit too much advance preparation thinking he was coming into the business, but I was not disappointed at the fact that he was not coming into the business because I know it is long hours and a whole lot of work.

But, to make a long story short, I applied to the SBA, I had gone to the banks, and the bank had made a commitment to me, and I—one of the banks was moving into town, one of the—the Crocker Bank was moving into town, and they figured I was pretty popular with the people and offered me quite a deal. In fact, I came by the building that I first went up to see them, and right about 1973, when I got ready to open up, why, the royal punch came and the bank cut back. I did not have a firm commitment on remodeling costs—no contractor will give you a firm commitment on a remodeling job. Maybe if I had got a firm commitment by just destroying what I had. We had cross overruns, but mainly due to weather that year, it rained and put us back about 1 month before we could reopen.

So, consequently, I got in bad with the bank and they did not come through with what they had promised me. I had to mortgage my home, and I had to mortgage everything that I had, drawn on some insurance policies and everything else, but with the help of the SBA, thank God, I borrowed $110,000. I went to them and it was accepted, and I felt very good about it. I luckily was able to repay them and the bank for most of the bank loan, but I have never missed a payment on the bank or the SBA.

I finished the 8-year loan that was made to me. So, our business suffered because we depend on tourists. At that time, we did not have Interstate 5 and the biggest link between 99 and 101, the coastal area, was 152, and, so, we depended heavily on traffic and the season.

So, we geared our business to those seasons, and this is probably January and February, not so much January, February, March, and April are usually our worst months of the year.

And, we depended on the cantaloupe season, but—so, in 1983 and 1984, we had a large loss. We are an agricultural community, and I have maybe too high class of a restaurant, I do not know. I sometimes wonder, but I am known up and down the State and throughout the country, and I have managed to survive all these years. With the mortality rate of restaurants, it is over 90 percent, I believe, I think I was successful enough to stay in business all these years.

I raised a son and daughter and put them through college and they are very happy, and, so, I continue to do what I am doing. And, so, the last 3 or 4 years, why, we have had a few problems, but mostly because of our agricultural business.

We encountered—we do some credit business to farmers mostly, and, so, I applied for—this time, I thought, instead of going through the banks—the last time I went through a bank, by the time I received the $110,000, I actually got $82,000 out of it. They took everything out of it because they thought I was going to go under, and gave me $82,000, but I survived.

I won many awards. This is the restaurant as it looks today. I did not bring—so, we turned—we had nothing and in 1970, to really until—here is maybe a plot map that you can look at.

We presently own—my debt against that excess land is $8,000, and, so, I applied again to the SBA because—

Mr. TORRES. Applied for how much?

Mr. COLZANI. $150,000.

Mr. TORRES. $150,000. Direct loan?

Mr. COLZANI. Direct loan. I thought I could circumvent the banks taking out their share before I got my share, so we could operate. So, luckily, I was accepted again, and I feel with the present economy, our farmers—we got into this situation by several things.

One was the farm economy, as well as you know, has been very, very bad for the last 3 or 4 years due to weather and pricing. And, the duck season fell off greatly because not only mine but everyone in town because of the simple reason that we have had some problems, and then the Olympics came along and we do a lot of business with the tour company called California Park Car, tours that go into Yosemite Park, we get all their lunch business. We do not have to fool with the individual checks. We serve them. They can order anything they want. It is the American plan tour. Their business drops 59 percent last year, and it had quite an effect on my business, and they figured with the Olympics, it would be a banner year, which the Olympics were great and it was the greatest display I think I have ever watched on television. I was not able to attend any of that, but due to these factors, why we just took a loss and—a heavy loss.

Now, business from the tour business looks very good. In fact, they have been with me for 15 years and I am doing more business these last 3 or 4 months, 3 months, than I have done with them in the past in any time when I had my peak year with them in 1981.

So, you know, that one account brings a small business like mine $150,000 a year. I employ 40 people. We have all types. I have worked with high schools. I did not mention that in my letter, but I worked with high schools, through the local high school there for years, when my son was just a high school young man, and taught them to be bus boys and worked with the Youth Program there.

Then, I also worked—when a rope program came along, I had a couple of black boys who work with me now, right now, and have worked with me every year since the program came on. I try to help them.

So, we have a diversified mixture of people working for us. Portugese element, which is—they come into this country and they cannot speak, for one thing or another, we teach them and turned out to be very good employees. That is why I have loyal employees, and I think that has helped me a great deal in my business.

Now, we are faced with another problem with the drunken driving law, which we—I guess I am the only restaurant in that whole area that belongs to the National Restaurant Association, and we were given much advance notice on how to be cooperative with this. The clientele I have is very high—quite a high clientele.

The day President Kennedy was killed was a day I can never forget because Alan Cranston was there for a luncheon running for Senator, and—so, even though we come from a small community, it is visited by many, many people who have a lot of influence, and not only influence, higher stature.

The day that Kennedy came to Los Banos to dedicate the San Luis Dam, I could never go out there because my place was full of Senators and Congressmen and State and national—so, we developed quite a business. I am proud out of it. Maybe—I am sure that with this turnaround, I think that things will turn around because the San Joaquin Valley, to me, and this Nation, as a whole, I have wholehearted faith in.

I think I have been through tough times before, and I have overcome them, and I think I can overcome this. Now, this loan was just approved, and I intend to repay it, and I do not see any reason why I should not be able to.

I maintain a high inventory. I have sort of let it run down a little bit now, but not too much. Last year, one—my wine was my hobby, and although I am not a drinker, wine was my hobby, and I did drink a little wine at times, but at times, I am on different medication, and I cannot drink at all. But, I have not drank any hard liquor since 1960, and, so, I got into this wine many, many years ago because my father used to make wine. I could not understand why people did not drink wine with their meals, so I was way ahead of my time when it came to wine.

So, I accumulated a lot of wines, a lot of fancy wines, over the years, and it was a costly and profitable time. So, since the recession, why, I have not been able to sell as much but I still sell a lot of wine, do not get me wrong, but not the quantity that I was selling before because the farmer does not have the money to pay for those types of wines, and, any way, we entered our wine list, and I know how they are professionally done by some professional that comes in and does wine lists in most established restaurants in Los Angeles. I have many friends in the restaurant business.

I do mine myself, and I have a girl that types it, and I run it through a copier and some wine people said why do you not enter your wine list in the national competition, and I did, and reluctantly did, and it was picked one of the top 100 in America.

Mr. TORRES. You are very modest, Mr. Colzani. As I understand it, the national entries into this wine competition numbered some 55,000 entries.

Mr. COLZANI. Right.

Mr. TORRES. And, out of those, you were picked among the top 100. So, we commend you for that.

Mr. COLZANI. Thank you.

Mr. TORRES. So, the SBA then has turned out to be a helping element in terms of your——

Mr. COLZANI. They have helped me.

Mr. TORRES. 36 years with this restaurant.

Mr. COLZANI. That is right.

Mr. TORRES. That is commendable, sir. I know it has been a lot of hard work and you have seen peaks and valleys, as we say, up times, down times, but you have perservered. and I think it speaks to the resilience that you have as a business man, a small business man, and this is why we are conducting these field hearings, to get a sense of people like yourself and Mr. Robert "E" Lee here and the gentleman here, and their back pack company.

We see the measure of success that SBA has brought to you.

So, I want to thank you, all three of you, for being with us here this day. I know you drove a long way down here.

Mr. COLZANI. Well, I wanted to come here. My wife broke her foot this morning and I was behind schedule and I thought I had my girl call into the office to make sure to tell them I would be here because I wanted to thank you personally.

I hate to see this loss because we have no other alternatives, banking has changed. I remember when I used to walk in the bank and they would say how much you need, Carlo, and just write me out, and I would walk out, and say how long you want it for and did not ask too many questions.

Today, why, they do not care about my past performance. They do not care about anything. They only care about my cash flow and how soon I can repay it, and, so, I really thank the SBA for helping me, and I am sure that with this, I can repay them as I did before.

Mr. TORRES. Thank you. Thank you all.

We are now down to our last panel of invited witnesses to testify before this Small Business Committee of the House of Representatives.

I am going to ask Mr. David Jones to come forth and Mr. James Gardner.

Panel 6 is going to deal with the small business investment companies, SBIC's as we know them, and certainly, gentlemen, as I said to the other groups, give us about a 10-minute statement about what your endeavors are, how you see this whole question of the proposition by the President to eliminate or repeal the Small Business Administration.

We will start with Mr. Jones.

TESTIMONY OF DAVID B. JONES, PRESIDENT, FIRST INTERSTATE CAPITAL, INC., LOS ANGELES, CA

Mr. JONES. Thank you, Mr. Chairman. It is nice to be here today, nice to see Mr. Powers here. I have submitted a longer written statement, which I would like to have entered into the hearing record. I believe that has been done.

Mr. TORRES. Without objection, that will be done, Mr. Jones.

Mr. JONES. Thank you.

Mr. Chairman, the National Association of Small Business Investment Companies wholeheartedly supports the passage of H.R. 1281, and we commend you and the cosponsors of the bill for its introduction.

SBIC's, as you know, are private companies chartered by SBA to make equity investments and long-term loans to small and growing businesses. SBIC's must first invest their own private capital before they are eligible to borrow from SBA.

Preservation of SBA is NASBIC's highest legislative priority and H.R. 1281 is a positive response to the administration's completely negative proposal to kill the SBA and all of its financial assistance programs.

Our members are seriously concerned about the negative impact of huge Federal deficits. We are keenly aware of how damaging high inflation and high interest rates can be to the small firms we invest in and to our own company.

At the same time, we think it is utterly foolish to terminate a program that is a profitmaker for Uncle Sam. Let us look for a moment at the government's return on its investment in the SBIC Program.

On the income side of the ledger, SBIC's, and the portfolio companies they invest in return to the Federal Treasury increased tax revenues far in excess of a handful of dollars that the Government spends on the program.

A clear example, Mr. Chairman, was the chart prepared for the recent Senate Small Business Committee hearing which showed 10 outstanding SBIC-assisted companies that paid almost $200 million in Federal taxes in 1983. That is more money than the SBA loaned the entire SBIC industry in that same year.

Mr. TORRES. Has that been attached to your statement?

Mr. JONES. It is attached to the written statement. Yes, sir.

You will notice that the numbers there are fairly dramatic.

Mr. TORRES. Indeed, they are.

Mr. JONES. I would add that there are thousands of other portfolio companies which are major taxpayers today because of the SBIC Program.

On the expense side of the ledger, three points need to be mentioned.

First, when SBIC's borrow from the Government, they pay more than the cost of money to the treasury, for there is no subsidy involved. Second, the fees now paid by SBIC's more than cover the SBA's cost of operating the program. And, finally, new tax revenues generated by the SBIC Program have covered the Government's losses hundreds of times over.

SBA's losses are low, in large part, because the SBIC's private capital is at risk first before Uncle Sam loses one thin dime. SBA's average loss rate on its loans to the SBIC industry is less than one-half of 1 percent a year, far less than commercial banks lose on their so-called secured loans.

During the first 25 years of the program, SBA has written off only $38 million. Mr. Chairman, 2 weeks ago, a single SBIC portfolio company, Cray Research, testified that they paid that much in Federal taxes in just 1 year.

The SBIC Program has also been tremendously successful and an efficient vehicle to stimulate job creation. Economic studies have shown that a new permanent job is created for each one-time SBIC investment of $6,500. At the industry's current level of investment, SBIC's are creating over 65,000 new jobs per year.

The Federal Government's gross expenditure for each of these new jobs is a mere $150, and this is reduced to zero when you consider tax revenues the program generates.

The chart I mentioned previously showed graphically how SBIC's impact job creation. Total employment of about 10 SBIC-assisted firms rose from 1,600 at the time of the first SBIC financing to an amazing 53,000.

Let me make one additional point regarding the program. Mr. Stockman recently suggested that the SBIC Program is no longer necessary because a large private venture capital industry now exists. That conclusion is dead wrong because it is based on superficial analysis of what the venture capital industry is all about.

SBIC's account for over 20 percent of the venture capital industry's resources, and a loss of that $2 billion would be an enormous blow to small businesses. Even though it has grown substantially, the entire venture capital industry cannot finance all the growth capital needs of qualified small firms.

The spirit of entrepreneurship in America has produced a tremendous demand for capital. While most private venture capital firms concentrate in high-tech investments with prospects for extremely rapid growth, SBIC's invest in a much wider and more diverse range of businesses, including many traditional and more mundane industries.

Because of this far wider geographical d*.....END OF BAD MAG TAPE BLOCK*ispersion, SBIC's reach into many nooks and crannies of the country untouched by the rest of the venture industry. Our own SBIC, while active in technology industries, has also financed a food processor in Oregon, a rubber products company in Tennessee, and a retailer in southern California.

Finally, it should be noted that the non-SBIC segment of the venture industry has a highly cyclical history, and in the face of that condition, it would be folly to wipe out the stability provided by SBIC's.

In conclusion, Mr. Chairman, our industry applauds you and this committee for your efforts to continue the SBA and its proven programs. Even though the proposed authorization levels under H.R. 1281 represent a freeze which will prevent the SBIC industry from producing at its maximum capacity, we understand the budgetary constraints you face and the entire Government faces.

We will continue our efforts to design and improve private sector formats for the SBIC Programs, and in that regard, we hope your committee will give serious consideration to a proposal our industry has made to Congress calling for the creation of the Corporation for Small Business Investment in this session of the 99th Congress.

That corporation would assume the obligations of the SBA and would enable us to fund all the SBIC's in the private sector.

Thank you very much.

[Mr. Jones' prepared statement and attachment follow:]

PREPARED STATEMENT OF DAVID B. JONES, PRESIDENT, FIRST INTERSTATE CAPITAL, INC., LOS ANGELES, CA

On behalf of the officers and members of the National Association of Small Business Investment Companies, I wholeheartedly support the passage of H.R. 1281, legislation authorizing appropriations for the Small Business Administration.

I am David B. Jones, Treasurer of NASBIC, and also President of First Interstate Capital, Inc., Los Angeles, California, an SBIC which was licensed in 1978. Our SBIC has $9-million in private capital and also has invested the $22.75 million it has borrowed from the SBA. During the past 6 years, First Interstate Capital has invested over $30-million in some 44 small business concerns.

Our Association represents the overwhelming majority of all licensed SBICs and MESBICs and has testified often before your Committee in the more than 26 years since it was organized in 1958. We are grateful once again to you for giving us this opportunity to present our views on this most important piece of legislation.

We commend the members of your Committee who support H.R. 1281, which continues the existence of the SBA. We hope that the Committee's series of field hearings will convince the entire Committee membership to report the measure to the House favorably with a unanimous vote. In ordinary times, this three-year authorization legislation would be critically important to our industry, since it provides the guidelines on the ability of SBA to provide loans to fully-invested SBICs and MESBICs. Our efforts have been somewhat hampered over the past several years when no one was certain how many dollars, if any, SBA would have to lend to the industry.

Today, however, the legislation before you is immeasurably more significant, because it stands in stark contrast to the Administration's proposal to kill SBA and all its financial assistance programs. On Tuesday of this week, NASBIC's Board of Governors made the preservation of SBA its highest legislative priority, so we make this statement in favor of H.R. 1281 with no reservation. It is a positive response to a completely negative proposal.

NASBIC members are no more complacent about huge Federal deficits than other informed citizens. Along with our portfolio companies, we have struggled through periods of high inflation, high interest rates, and credit crunches. We know those harmful events often result from fiscal irresponsibility -- and we fear the impact of present and prospective deficits on the small firms we have invested in.

On the other hand, neither we nor our portfolio companies would kill the profitable segment of our business, just because the unprofitable elements of the business pushed the entire operation into the red. And I can tell this Committee without equivocation that the SBIC program is a profit-maker for Uncle Sam. Surveys undertaken by the Government itself, as well as studies conducted by Arthur D. Little, Inc. and Deloitte, Haskins & Sells, have demonstrated beyond question that SBICs and their portfolio companies return to the Federal Treasury in increased tax revenues far more than the handful of dollars expended by the Government.

Attached to my prepared statement, Mr. Chairman, is a chart prepared for the recent Senate Small Business Committee hearings, concerning the taxes paid by 10 outstanding businesses which received venture capital from one or more SBICs. These 10 companies paid $199-million in Federal corporate taxes in just one year. Think of it!! Only 10 of the small businesses we assisted at start-up or at a crucial stage of their development paid more in taxes in 1983 than the entire SBIC industry drew down in loans from SBA.

Obviously, these 10 companies represent some of our most dramatic "winners", but I can tell you that there are thousands of other portfolio companies which are major taxpayers today only because they received dollars and management counsel from an SBIC.

There's no subsidy in the SBIC program!! When SBICs borrow from the Federal Financing Bank, with an SBA guaranty, they pay more than the cost of money to the Treasury. For the past seventeen months, operating SBICs and those applying for licenses have paid sufficient fees to cover most of the costs of operating the investment arm of SBA. In addition, for the past two months, SBICs have paid a "user fee" to SBA when they borrow. SBICs will pay the SBA more than $2-million each year in user fees. This source of income alone will offset all the costs of the program, without taking into consideration taxes paid by SBICs themselves, their partners or shareholders, and the increased taxes paid by SBIC portfolio companies and their employees.

The SBIC program has proven to be an exceedingly low-risk undertaking for the Government. In spite of the fact that most SBICs are venture investors and we find that losses are inevitable in our business, the industry's record since 1958 clearly confirms that, on a composite basis, the performance of the entire portfolio of all SBICs overcomes such losses by a substantial margin. I am sure I need not remind you that each SBIC bears 100% of each loss it sustains and SBA loses only after the entire capital of the SBIC is wiped out. This is the genius of the program -- private dollars are at risk.

I can tell you from personal experience that my company is a poor loser; we do everything possible to turn around bad situations. Even then we sometimes have to bite the bullet and concede that we've made a bad investment and write off those dollars against gains realized on other investments or against our private capital.

At NASBIC's Annual Meeting last November, an official of the Investment Division of SBA stated that SBA had written off only $38-million in loans to SBICs during the first 25 years of the program. That's an average of $1.5-million a year. We estimate that the average outstanding leverage during that 25 year period has exceeded $500-million, so you can see that SBA's average loss on its portfolio is less than one-half of one percent a year.

On February 21, John Carlson of Cray Research told the Senate Small Business Committee that his company owed its existence to the work of an SBIC; he also said that Cray Research has already paid a total of $83-million in Federal corporate taxes in the few years since it became profitable. Think of it: Uncle Sam has lost a total of $38-million on its loans to all SBICs, but has received more than twice that amount in taxes from just one company.

I'd also like to point out that the SBIC industry is extremely proud of its role in job creation through investments in small growth firms. One of the most important conclusions from the Deloitte, Haskins & Sells economic impact study was that a new, permanent job is created for each one-time SBIC investment of $6,500.

The SBIC industry is currently investing funds in emerging growth companies at the record annual rate of $425-million. Based on the Deloitte analysis, this means that the industry's investments are creating over 65,000 new jobs a year.

Remember, too, that this is being done at absolutely no cost to the government. The other striking conclusion of the Deloitte study was that the Federal Government spent only $312 in direct outlay to create a new job through the SBIC program. When we take into account the new fees levied on SBICs to offset program costs, the Government now spends at most $150 to create that new job. When tax revenues generated by the program are considered, the Federal Government comes out a major winner in terms of tax income, as well as in creating new employment.

Let's put some flesh on those bare-bone statistics. The company I mentioned earlier, Cray Research, went from 12 employees to 1,551 in the 11 years after it received SBIC dollars. The chart I mentioned showing the record of 10 SBIC-assisted firms showed total employment rising from 1,604 at time of SBIC financing to an amazing 53,172. It's easy to see why SBIC managers take such pride in their industry.

Let me mention one additional benefit the SBIC program provides. For the last several years, SBICs have invested more of their own private dollars than the SBA has made available in leverage. In calendar 1984, for example, SBA provided only $175-million in loans to SBICs, while the industry was investing a total of $425.5-million in almost 2,000 small business concerns. I would say that record proves that the Federal Government itself gets good leverage from the SBIC program.

Before leaving this section of my statement, I want to say that our industry takes serious issue with those officials and those reporters who scoff at SBA's clientele. Speaking solely for the SBIC part of SBA, I can tell you we take tremendous pride in the entrepreneurs we have backed, the dreams we have brought into reality, the jobs we have created, the innovations we have financed. I wish that you had the time to examine the tens of thousands of small businesses we have supported -- at birth, at a crucial period of expansion, or during a crisis when the survival of the business was at stake. The roster of SBIC-backed companies is an honor roll exemplifying dynamic capitalism at its best. Cray Research, National Car Rental, Intel, Federal Express, Apple Computer, Pandick Press, Teledyne, Berkey Photo, Memorex, Midway Airlines, Amdahl, NBI, Digital Switch, Dataproducts, Atlantic Research -- those are just a few of the better known. Their products and services have spurred productivity and innovation, increased competition, expanded export markets, and created new permanent jobs.

And it's not just the glamorous and "high-tech" investments we respect. SBIC portfolios contain thousands of firms in industries we might call "traditional".

This is probably a good time to point out that SBICs are not duplicating any private sector activity. Entrepreneurs come to us because they can't get the capital and the management assistance anywhere else. They can't get bank loans; they can't raise money through a public offering; they have exhausted their own personal resources and probably the dollars of their families and friends.

America's support for its entrepreneurs and its venture capital industry are envied throughout the world and the SBIC industry is a crucial part of the picture. Few of the 70,000 firms the SBIC industry has helped would have been born, would have grown, or would have created jobs if the SBIC program had not been established. Major corporations would go on borrowing from institutional lenders and raising capital through public offerings, but there's generally no room in those inns for the entrepreneur. When they receive SBIC financing, our portfolio companies don't have AAA credit ratings; they can't go public. Their ideas for new products and new services are often ridiculed by the established "experts" in the field. No public employee would have dared give financing or a contract to Cray Research; Control Data and IBM shunned the super-computer field, but an SBIC backed Mr. Cray and the rest is history.

Incidentally, Mr. Stockman implied in his statement last week that we do not need SBICs now that a large venture capital industry exists. I reject that conclusion for five reasons.

(1) SBICs still account for more than 20% of the resources of the total venture capital universe and the loss of the more than $2-billion committed to SBICs would be an enormous blow to U.S. small businesses.

(2) In common with every other SBIC and venture capital manager, I know that the entire venture capital industry cannot finance all the qualified investment opportunities we see -- it's not a case of "too many dollars chasing too few good deals".

(3) Most SBICs invest in situations which are not feasible for other venture capital firms. By using leverage, SBICs can make an acceptable return on their invested capital by providing funding to entrepreneurs in traditional industries. For that reason, SBICs are able to assist a much wider range of businesses than the firms in other segments of the venture capital industry.

(4) The SBIC industry has a far greater geographical dispersion than the rest of the industry; there are licensees in 46 States. Small business benefits from this broad distribution of SBICs.

(5) The highly cyclical nature of the non-SBIC segment of the venture capital industry could mean that no venture capital dollars would be available if there were no SBICs. Mr. Carlson of Cray Research testified that his company was able to raise money only from an SBIC, because there were almost no active venture capital firms in 1975. Cray was not the only firm facing that situation in the mid-70s; SBICs constituted almost the only game in town during those five or six years. The same situation prevailed from 1963 to 1968 when almost every venture capital dollar invested came from SBICs. I believe we may face that condition again in the coming years, so it would be folly to wipe out the SBIC industry.

I challenge anyone to tell me that SBICs are an "un-American" aberration in our free enterprise economic system!! The private sector and SBA have joined in this unique partnership program; we've put up the capital and the management skills -- and the risk of loss -- while the Federal Government has provided some important incentives to encourage the expansion of our activities.

H.R. 1281

As I said at the outset of my statement, I applaud the sponsors of H.R. 1281 for taking the lead in guaranteeing the continuation of the Small Business Administration and most of its proven programs. I am not an expert on anything but the SBIC part of SBA, so my specific comments are confined to that part of the legislation.

Quite frankly, the authorization ceilings in H.R. 1281 are likely to restrict quite severely the ability of SBICs to channel equity capital and long-term credit to small business. During fiscal 1985, SBA is operating under a $265-million ceiling on SBIC leverage and I am afraid that won't be enough to meet the legitimate needs of the industry. H.R. 1281 proposes to "freeze" SBIC funding at a ceiling of $250-million in fiscal years 1986, 1987 and 1988. It is quite apparent that the growth of our industry will be seriously restricted by those limitations and SBA will be forced to devise formulas for allocating the limited number of dollars.

However, we understand the environment in which you are operating, so we shall not argue for increased authorizations at this time. We still believe a steady flow of capital to SBICs provides a golden investment in economic growth and production of tax revenues, so we will continue our efforts to design a better alternative format for the SBIC program.

Chairman Mitchell has promised to re-introduce our legislative proposal to create the Corporation for Small Business Investment, which would convert our program to a private sector basis, reduce the budget deficit by $1.7-billion and solve the funding problem by providing the industry with stable access to the capital markets.

In the meantime, however, we strongly support H.R. 1281 and pledge that SBICs and their portfolio companies will work with you in passing the measure.

Thank you for allowing NASBIC to present this statement.

SBIC PROGRAM: A PUBLIC-PRIVATE PARTNERSHIP THAT WORKS

SINCE THEIR INCEPTION IN 1958, SBIC'S HAVE PROVIDED $5.0 BILLION IN VENTURE CAPITAL TO APPROXIMATELY 70,000 FIRMS MANY OF THESE SMALL FIRMS HAVE EXPERIENCED REMARKABLE ECONOMIC GROWTH, GENERATING NEW JOBS AND REVENUES. IN THE LAST TEN YEARS, SBA ESTIMATES OVER 250,000 NEW JOBS HAVE BEEN CREATED BY SMALL FIRMS RECEIVING SBIC FINANCING.

Examples of Small Companies That Received Financing from the SBIC Program:

	AT TIME OF SBIC FINANCING				AS OF LAST AVAILABLE DATA				
	AS OF	SALES	PROFITS	EMPLOYEES	AS OF	SALES	PROFITS	TAXES	EMPLOYEES
APPLE COMPUTER, INC.	9/30/77	$ 773,977	$ 41,575	63	9/30/83	$ 982,769,000	$ 76,714,000	$ 69,408,000	2050
FEDERAL EXPRESS CORP.	6/30/73	6,769,112	(4,460,896)	518	5/31/84	1,436,305,000	115,430,000	(15,964,000)	18400
INTEL CORPORATION	12/31/69	565,874	(1,887,808)	218	12/31/83	1,121,943,000	116,111,000	62,344,000	19400
ROLM CORPORATION	7/ 3/70	292,253	(358,586)	32	7/01/83	502,642,000	60,952,000	25,409,000	7049
CRAY RESEARCH, INC.	12/31/72	58,327	(3,137)	12	12/31/83	125,008,000	26,071,000	19,991,000	1551
PANDICK, INC.	5/31/65	3,315,665	55,497	655	8/31/83	121,086,000	10,038,000	9,653,000	1300
LIFELINE SYSTEMS, INC.	12/31/79	707,000	(260,000)	19	12/31/83	9,644,000	348,000	12,000	220
DIGITAL SWITCH CORP.	6/30/79	0	(639,532)	20	12/31/83	127,052,000	25,473,000	19,737,000	894
NBI, INC.	6/30/76	451,186	(859,809)	55	6/30/83	96,780,000	4,590,000	1,095,000	1846
NETWORK SYSTEMS CORP.	12/31/75	25,690	(348,099)	12	12/31/83	47,030,000	10,030,000	7,275,000	462
RECORDED TOTALS		$12,959,084	($8,720,795)	1604		$4,570,259,000	$445,757,000	$198,960,000	53172

PREPARED BY THE STAFF OF THE
SENATE SMALL BUSINESS COMMITTEE

Mr. **Torres**. Thank you, sir. I am sure that Mr. Mitchell, the chairman of our committee, will look with great interest upon this proposal for the creation of this entity that you have described, and I would like to simply state that based on your testimony, the people opposed to SBA will argue that the agency only assists a very small number of citizens relative to the millions of small business men in the Nation.

And, again, another common argument against SBA is that the agency only assists minority-owned businesses or bad risks. Given your experience with the SBIC's, can you refute this argument?

Mr. **Jones**. Well, first, in terms of the numbers of small businesses, it is my understanding that the administration has used the figure of 14 or 15 million small businesses. They are defining small businesses as every single sole proprietor and every single individual who operates a business, whether it is an accountant keeping books at night or every doctor, and it does not really apply to those businesses which are seeking long term, what we call, patient capital to be able to grow and to create jobs.

That sector of the economy is a 10th as large as the 14 million, and I would say that we have data that shows, for example, that 40 percent of the long-term debt supplied to small businesses has an SBA guarantee on it.

Now, 40 percent of a particular market is a significant percentage and 40 percent of small businesses who are able to obtain long-term debt have to get an SBA guarantee to obtain it or get it directly from the SBA. Or get it from an SBIC.

I think a number of the companies financed by SBIC's in the last 26 years is in the several thousands, but the SBIC part of the SBA program, while not reaching as many individual business entities, has a much greater impact on job creation as those numbers show.

We are the long-term, risk-oriented, growth-oriented investors whose successful investments have a tremendous record of job creation. We create 10 times as many jobs as any other program we have ever heard of. So that I think the impact on both the direct loan programs, the guarantee programs, and our equity investment programs of SBIC's, do serve a significant sector of the small business community, and have been a very positive force for increased tax revenues far in excess of the cost of the program and job creation.

Mr. **Torres**. Thank you.

Mr. Gardner.

TESTIMONY OF JAMES F. GARDNER, SENSORMEDICS CORP., ANAHEIM, CA

Mr. **Gardner**. Thank you, Mr. Chairman.

My name is James F. Gardner. I am the chief financial officer of SensorMedics Corp., and my comments will be likewise brief.

SensorMedics Corp. specializes in the design, development, manufacturing, and marketing of micro-electronic-based instrument systems for the noninvasive measurement and monitoring of heart, lung and other body functions.

Formerly a division of Beckman Instruments, Inc., the company has more than 15 years experience in the application of gas analysis, sensors, electrophysiology and microprocessor systems to the development of innovative products for the health care arena.

At this time, I would like to pass out some company literature in order to give you an idea as to the type of products that we sell.

In addition, the company has designed and developed instrumentation used in every U.S. manned space flight and continues to serve the National Aeronautics and Space Administration in the ongoing space shuttle program.

In November 1983, the former physiological measurement operations was purchased from the Smith Klein Beckman Corp. in a leverage buyout sponsored by three SBIC's who took the risk of investing $2.5 million in a company that was in a tenuous market. This was further complicated by the announced abandonment of the operation by the parent corporation since it did not fit into their long-term strategy.

This operation was a struggling small firm with 3 straight years of losses in excess of $1 million in each year. SensorMedics Corp. is comprised primarily of former Beckman managers and employees, thus ensuring continuity of product technology and philosophy.

At the helm of SensorMedics has been cohesive management, most of whom have worked together for many years. The company's products are based on its proprietary technology in the field of electrochemistry, spectroscopy and instrumentation systems. They are used in hospitals, doctors' offices and laboratories for cardiopulmonary diagnosis, monitoring, rehabilitation, research, and fitness testing.

SensorMedics headquarters manufacturing and research operation occupy 85,000 square feet in Anaheim, CA, and the company currently employs 250 individuals.

I might also add that in our first year, we acquired a small business that owed its very existence to SBA loans that have been repaid in full.

The company expects to wind up fiscal year 1985 with sales of $23 million, and net income of $400,000. For fiscal year 1986, we expect sales to be in the range of $30 million, and net income to be approximately $3 million.

Approximately 10 percent of our sales are exported to Europe and Japan. We believe that the taxpayers' exposure from their initial investment is now zero. In addition, the taxpaying public will get a return of over $1 million from SensorMedics in the form of payroll taxes and corporate income taxes for fiscal year 1985.

We expect this number to more than double for fiscal year 1986. We believe that without the SBIC's making an initial high risk investment and giving continual counsel and key financial advice to the top management, Sensor Medics would never have come about and approximately 250 people would have been forced to find employment elsewhere.

Growth in our Nation's economy, creation of new job opportunities, and the development of commercial innovation requires entrepreneurs with the drive and commitment to translate ideas into economic realities and a financial climate that allows innovation to prosper and encourage the growth of new firms on the cutting edge of technology.

Thank you very much for your time and attention.

Mr. **Torres**. Thank you very much.

I want to thank both of you for taking the time to come here before us today. I know that you have had to travel to get here, and that is extraordinary based on the fact that you have many things to do, but it was important for us to be able to understand the particular problems of the industry, the particular good things that SBA has done, the good things that SBIC's are doing, and I must say to you that along with the other people that have been here today, who traveled far and took time to be here, for us, as members of the committee, it is gratifying to see what is happening, to feel the pulse of the country, as we will be doing as we go on to other sites across the Nation.

I want to thank the staff for preparing the advance work, for being able for have you here with us, preparing the documents, and we will just be moving on to, as I said, other cities in America, to hear from the small business community.

So, thank you very much, and this hearing is now adjourned.

[Whereupon, at 1:50 p.m., the subcommittee adjourned, to reconvene subject to call of the Chair.]

SMALL BUSINESS ADMINISTRATION PROGRAM REVIEW

(Part 1)

SATURDAY, MARCH 23, 1985

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON SBA AND SBIC AUTHORITY, MINORITY ENTERPRISE AND GENERAL SMALL BUSINESS PROBLEMS, COMMITTEE ON SMALL BUSINESS,

Los Angeles, CA.

The subcommittee met, pursuant to notice, at 10:30 a.m., in room 340, City Council Chambers, City Hall, Los Angeles, CA, Hon. Esteban Edward Torres (acting chairman of the subcommittee) presiding.

OPENING STATEMENT OF ACTING CHAIRMAN TORRES

Mr. TORRES. Good morning, ladies and gentlemen. This hearing will now come to order.

I'm Congressman Esteban Torres of the 34th Congressional District here in California, the San Gabriel Valley. I'm pleased to be here in Los Angeles this morning along with one of my colleagues, Representative Charles Hayes from the city of Chicago, the State of Illinois, on my right, who has come out here all the way from Chicago to participate in this important hearing this morning.

I'm joined also by the general counsel of the House Committee on Small Business, Mr. Tom Powers, on my left. We're also joined by staff assistants George Grant and Yvonne Irvine, who've come from Washington to prepare the logistics for this kind of meeting, and I really want to thank them very much.

I'd also like to thank in this vein the mayor's Office for Small Business Development which is headed up by Mr. Wilfred Marshall and his deputy, Al Juarez, who have been also very helpful in arranging the logistics so that we might have this meeting here today.

Of course, I'd like to thank my own staff here in the field for the kind of preparatory work that brings about this kind of endeavor.

Why are we here and why are we undertaking this type of work?

Well, as many of you know, the President has proposed the elimination of the Small Business Administration. Clearly, all of the financial assistance programs would be repealed.

A few of SBA's programs, such as Procurement Assistance, Innovation and Research, Minority Small Business Assistance, Advocacy, and the particular volunteer arm which is called the Service

Corps of Retired Executives—known as SCORE—would be transferred to the Commerce Department.

Such a transfer, however, is merely, in our estimation, a prelude to eliminating these programs. Also, as the Commerce Department represents, as you know, big business and certainly does not want to be bothered with the transfer of additional functions, I'm sure it would only be a question of when these transferred functions would somehow slip out of sight in the administration's future budget requests.

We know that only this week the Secretary of Commerce Malcolm Baldrige announced that the administration would not—I repeat—would not be submitting legislation this year requesting that the Department of Commerce be renamed as the Department of Trade and functions unrelated to exports be eliminated.

So how ironic that, on the one hand the administration is proposing, for example, to move SBA functions of minority assistance and procurement assistance to the Department of Commerce and yet, at the same time, they are considering eliminating similar functions in the same department.

The Small Business Committee of the House of Representatives, on which Representative Hayes and I serve, is responsible for considering the President's proposal to abolish the Small Business Administration and submitting our recommendations for consideration and a vote by the entire House of Representatives.

As a part of this consideration, the committee will be holding some 10 hearings across this country. We started out yesterday in the city of Fresno, and today here in Los Angeles, as we are now doing. We then will move on to Portland, Houston, Chicago, Philadelphia, Washington, DC, and possibly other cities.

At these hearings, we will be seeking the views of small businesses that have participated in SBA's programs. The views and recommendations from those who actually have received help from the agency are very important to us as they supply a firsthand knowledge of the effectiveness of the programs and their worth as an expenditure of tax revenues.

Yesterday in Fresno, as I mentioned, we concentrated on the Direct and the Guaranty Business Loan Programs and programs to supply capital through the private sector in partnership with SBA under two additional programs, those being the so-called 503 Development Company Program, through which SBA can provide up to half of the capital needed for real estate and fixed assets, with the other half being supplied by local financial institutions and the Small Business Investment Companies, or SBIC's as they are known, program through which private companies licensed by SBA use their own funds and SBA guarantees to provide long-term debt or equity capital to small businesses.

So today here in Los Angeles, we will be receiving additional testimony on the Regular Business Loan Program and on the Nonphysical Disaster Loan Program, which provides capital needed by small businesses which are required to meet pollution standards or comply with other Federal laws, and the Surety Bond Guarantees Program, which guarantees a surety against loss incurred due to the failure of a small business contractor to perform a contract.

Future hearings, as I've mentioned, will concentrate upon other SBA programs such as the Pollution Control Bond Guarantees Program; the Physical Disaster Loan Program, which helps victims of floods and other natural disasters; minority assistance, especially through the 8(a) Program; Procurement Assistance and Management Assistance Programs, particularly through the Small Business Development Center Program.

I'd like to also point out that President Reagan's administration frequently claims that SBA only helps some 21,000 small businesses per year. I want to repeat that figure—21,000 businesses per year. This is the President's argument.

This is true, if all you count are regular business direct and guaranteed loans, but let me tell you that it ignores the 14,000 disaster victims, the almost 4,000 who receive equity capital through SBIC's, the 7,000 who receive surety bond guarantees, the 5,000 who participate in the 8(a) Program, the 210,000—210,000—who receive counseling, and the 380,000 who receive training every year.

So you can see that it's much more than just 21,000 businesses that receive benefits and assistance from SBA. Moreover, it seems strange that over the years the Office of Management and Budget has insisted that SBA programs be very limited and now points to the very low number as showing a lack of impact. I think it's an inconsistency.

In conclusion, let me say that I want to point out that the shortsightedness on the part of the President's proposal to eliminate SBA, which I don't believe is very well known, is due to its loan-making activities. I should rephrase that.

It isn't well known that the President is proposing this particular elimination, and this is part of the effort here at our hearings—to discuss this in detail.

Due to its loan-making activities, the agency has a portfolio of loans of almost $10 billion. The President has proposed to sell these loans to improve cash-flow. This is nothing more than a conversion of assets and is being done at a very expensive price.

According to testimony from OMB Director David Stockman, the administration's budget proposal includes the sale of $9.8 billion in loan assets over 4 years, but the projected yield is only $1.83 billion. Thus, we would expect to receive less than 19 cents on the dollar, and this would create a windfall for investors under the guise of budget austerity.

This is totally unnecessary, and I would note that in the past OMB opposed a proposal to sell smaller parts of the portfolio even though we were projecting that we might obtain at least triple or higher yields than those projected by Mr. Stockman.

Again, I want to state that we appreciate the appearance of these small businesses and other witnesses that are here before us today. It's Saturday; there's a lot of work to be done; there are things that you could be doing; you've chosen to come from afar, to leave your own schedules, to be here with us today, and I appreciate that; we appreciate that.

I want to assure you that the kind of testimony that you will be presenting to us will be used, of course, to apprise our other colleagues, who are not here, who are members of the Small Business Committee. It will be used to make arguments before the House of

Representatives as to what we believe and by your testimony will be important arguments that could, in fact, forestall the abolition of this very important agency of the Federal Government.

The SBA has made a substantial contribution to the State of California; there's just no doubt about that. I'm not going to spend the time and go through each SBA program and provide the numbers, but, rather, I have available for anyone who wants it a summary sheet that shows the numbers and the dollar amounts of each program in California in the last 2 fiscal years. This will be ample proof, I'm sure, of the great worth of this program and how it's impacted on the State of California.

So before we begin our taking testimony from you, I would like to turn the microphone over to my colleague, Mr. Charles Hayes, for a statement, if he would care to.

Charlie.

OPENING STATEMENT OF HON. CHARLES A. HAYES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. Hayes. Thank you, Mr. Chairman. I'll be very brief.

I, too, am glad to be able to join you and the staff of our Small Business Committee here in sunny California, in our efforts to do what I think is a necessary move to be of help to people who are in business, who are categorized as being small and certainly need the help of Government in order to be able to make it.

I happen to represent a district where the only business that's there is small business. Two things concern me about the survival of small business, one being that certainly there's a consumer interest. I think competition tends to make business function better and certainly hold prices at a level that consumers can afford to pay in many instances.

No. 2, small business, for people who don't know it, is one of the main sources of jobs and employment in many areas. From hearings we held last year, I found out that in some States, and in some areas, small business represents almost 60 percent of the jobs that exist in that area, or 65 percent. I don't know exactly what the ratio is here in California, but I know we can't continue to let the trend move in the direction of consolidation and mergers of small businesses into big businesses. We must help to bolster and salvage and help our economy.

I am concerned about, certainly, the efforts on the part of many of the big businesses to gobble up the small businesses. We have increasing numbers of chapter 11's and bankruptcies occurring in many areas, and I think it's a responsibility and function of Government to provide an avenue through which you can work and function to try to help small business survive for the reasons that I have told you.

I'm just glad to be here. I notice we have an impressive list of witnesses, and I know some of you are here, to bolster the survival of the Small Business Administration, and I think the time we spend here this Saturday will be time well spent, and I want to get on with the witnesses and hear them, Brother Chairman, so that we can understand just exactly what they have on their minds.

Mr. Torres. Thank you very much, Representative Hayes.

Let me spell out for you the type of procedure we'll use here today. We're going to ask the witnesses to approach the committee here as a panel. In other words, we'll be hearing from three, four, or five of you at a time.

We would ask that you take these immediate two seats here, that you use these microphones, that you talk to us, give us your testimony in the order that I'll call your name, feel comfortable, relaxed; and, subsequent to your own testimony, or perhaps all four of you as you present this testimony, we will probably ask questions of you. At some time during your own testimony, we may stop you and ask you to clarify a point.

So if I may, I'd like to call upon the first panel of witnesses. This is the panel that deals with direct loans—that is to say, the people that have received the benefits of direct loans from SBA, and also other forms of assistance from the Small Business Administration.

May I call upon Mr. Garland S. White, who is the president of Datametrics in California, if he will take the first microphone there; Mr. Donald J. Long, who is the chairman of Brasher Brothers, Inc., in Burbank, CA; Mr. Pietro Vitale, the president of Oh Boy! Corp. in San Fernando; and Mr. Frank Lucas, the president of Leadtec California, Inc., in San Fernando.

Gentlemen, welcome. I'm happy that you're able to be with us today. We'll begin with Mr. White first. Please present your testimony to us.

TESTIMONY OF GARLAND S. WHITE, PRESIDENT, DATAMETRICS CORP., CHATSWORTH, CA

Mr. WHITE. Thank you, Mr. Chairman.

I'm Garland S. White, president and chief executive officer of Datametrics Corp.

First, I would like to summarize what will be covered by this testimony. I intend to show that Datametrics is a successful, growing company that benefits the community by, among other things, employing 240 people.

Further, the company benefits the Nation by successfully competing its products in the defense industry and manufacturing highly reliable and rugged printer/plotters for the communication, command, and control requirements of the Army, Navy, and Air Force, and more than 40 prime contractors.

In addition, the company supplies printers to 22 commercial airlines and has been awarded a contract by Japan Air Lines to supply printers in the cockpits of their aircraft. In our own way, this successful order will contribute to solving the balance-of-payment problems facing our Nation.

I have attached Datametrics' annual report to this testimony. The annual report is current, having been completed February 15, 1985, for Datametrics' fiscal year 1984 ending October 31, 1984.

I will further testify that the company benefited from the Loan Program and the Certificate of Competency Program of the Small Business Administration.

Datametrics occupies two adjacent buildings totaling 70,000 square feet located in Chatsworth, CA, and these buildings provide sufficient space to double its present production output. The facilities are modern and are occupied by 240 engineering, manufacturing, sales and marketing, and management personnel. The sales volume for the most recent completed year was $13.5 million, and the sales rate currently indicates that the company will continue its growth curve of the past.

The company is now a publicly held company with approximately 1,300 stockholders nationwide. Its stock is traded on the Pacific Stock Exchange and also listed in the Western Over the Counter. In addition to its daily listing under Pacific Stock Exchange in the Wall Street Journal, Datametrics stock is now quoted daily in every major metropolitan newspaper carrying the Associated Press quotations for the Pacific Stock Exchange.

The company's backlog of unfilled orders total approximately $14 million, the majority of which is scheduled to be delivered in the current fiscal year.

The company's products represent the results of many years of specializing in its printer/plotter product line. The company has been, and continues to be, a leader in military printer technology, providing high-quality, high-speed, nonimpact printers and high-resolution printer/plotters. These products are superior in four major categories. They produce the best printed copy at the highest speeds and will operate under the harshest conditions and exhibit the highest level of reliability. For example, Datametrics' state-of-the-art thermal printing technology results in the production of extremely high-quality alphanumerics that approach typewriter quality, and graphics that are superior to our competition.

Many of Datametrics' printers operate at much higher speeds than the printers manufactured by competitors. This feature is vital to the Armed Forces since the printers are frequently used in missile and shell tracking operations as well as ordnance and communication systems vital to the national defense—where every second counts.

In addition, the company's printers are specifically designed for use in severe environments in which shock, vibration, dust, high humidity, electromagnetic or nuclear radiation, salt air, fungus, and extremely high and low temperatures or humidity could be encountered for long periods of time.

Due to the superior qualities, Datametrics' products have achieved widespread acceptance with the Navy, Air Force, Army, Marine Corps, and many commercial airline companies. As a result of the continuous demand for its high-quality products by the Armed Forces, the company has been declared "essential to the national defense" by all branches of the Armed Forces.

In 1973, Datametrics had a major cash-flow problem and found itself in a position of not being able to obtain a loan from a bank under any normal circumstance. The company obtained a Small Business Administration guaranteed loan from a commercial lending institutin. The loan was an 8-year loan for approximately $380,000 that the company paid off only 4½ years later in 1978.

In 1973, the year that Datametrics had this loan, the sales volume was $840,000, and it employed 18 people with an annual payroll of approximately $300,000. The size of the company since the loan increased at an average compounded growth rate of 30 percent per year to a sales volume of $13.5 million in 1984. The company today employs 240 people at an annualized payroll of over $6 million. The salaries and the balance of the sales volume go into the local economy in the form of materials bought from local companies, rent, utilities, services, et cetera.

In 1981 and 1982, the company diversified its business activities by purchasing two companies in the commercial products field. One company manufactured commercial computer systems, and the other manufactured commercial printers for home and office environments. These ventures were unsuccessful and caused the company to suffer large losses which exceeded its net worth.

The company divested itself of the commercial subsidiaries and went back to doing what it knew best, the MIL-SPEC printer product business. In 1983 and 1984, the company regained its position on its strong growth curve and the percentage of growth continues.

While in its lowest ebb of financial woes in 1982, the Air Force and the Navy desired to give Datametrics contracts for $3½ million and $250,000, respectively. Because of our weakened financial balance sheet, the principal contracting officer, the PCO, found Datametrics not to be financially able to perform on the contracts. The regulations require under such cases that the final decision be given to the SBA. In both cases, the SBA awarded Datametrics a certificate of competency [COC] and declared Datametrics qualified to perform, resulting in the award of the contracts to the company. Both contracts were completed on schedule and required the delivery of important equipment needed by the Defense Department.

In order to complete the COC history, let me explain that Datametrics was awarded a COC in 1975 for a $6.7 million contract. However, no contract resulted from the effort.

Further, the Small Business Loan Program personally benefited me subsequent to the 1971 Sylmar earthquake. My residence in Sylmar was totally destroyed by the earthquake and therefore condemned by the city of Los Angeles as unlivable. The Disaster Loan Program provided me a loan, certainly unobtainable from any lending institution, and allowed me to rebuild the house and continue my residence at the same location. The loan payments have been at all times kept current.

In summary, please accept my testimony that the Small Business Loan Program and the Certificate of Competency Program of the Small Business Administration have greatly benefited Datametrics Corp., which has developed into an outstanding industrial asset.

Thank you.

[The report submitted by Mr. White is in subcommittee files.]

Mr. TORRES. Thank you very much, Mr. White, for a very comprehensive report and testimony on your particular venture.

We'd like to hear next from Mr. Donald J. Long.

Sir?

TESTIMONY OF DONALD J. LONG, CHAIRMAN, BRASHER BROTHERS, INC., BURBANK, CA

Mr. LONG. Chairman Torres, Representative Hayes, the city of Los Angeles, my colleagues here with whom I feel very flattered to attend and give testimony today, and other people in the small business community, my name is Donald J. Long. I'm chairman and chief executive officer of Brasher Brothers, Inc., a California corporation.

We are engaged in the egg products processing and marketing business and employ approximately 75 people. In late 1971, Brasher Brothers received a $400,700 30-year-direct, nonphysical, disaster-compliance loan from the Small Business Administration. The interest rate was 5⅜ percent. The current loan balance is less than $67,500.

I tend to feel that the ingredients in business are somewhat related to Rommel's definition of a great leader. That is, a delicate balance between caution and audacity. In our case, I'm not sure where the balance was, but we had one additional ingredient, and that was naivete. We didn't know it couldn't be done.

On March 19, 1971, my partner, Joseph R. Skenderian, and I purchased all of the stock in Brasher Brothers, Inc. We brought 19 years of hands-on experience in all phases of the egg products and distribution business—operations, sales, marketing, and administration—to Brasher, with the exception of business finance. We did, however, have a dream of converting a small, old-fashioned, low-volume company into a modern, efficient, low-cost provider of fresh and frozen egg products to bakery, salad dressing, and food service industries.

One banker advised us prior to our purchase of the stock to gain control of the assets first and then there'd be no problem in gaining financing.

Armed with a company generating sales of $500,000, a balance sheet showing a negative net worth of $150,000, no profit history under the new management, a 5-year business plan projecting sales growth to $4.9 million, a commitment to hard work, and a willingness to pledge all our personal assets, we approached bankers, investors, SBIC's, asset-based lenders, and friends to borrow $400,000. The funds would be used to bring our facilities into compliance with the provisions of the Egg Products Inspection Act of 1970 to enable us to remain in business and meet our realistic yet ambitious goals.

We were turned down by everybody. The reasons varied from "We don't lend to companies with deficits," to "You don't have the ability to repay," to "We don't believe your projections," to "You are requesting too much money on your company's history," to "You don't have enough collateral," to "Come back after you have a track record."

We also approached the Small Business Administration, since, under the terms of the Egg Products Inspection Act, the SBA was authorized to lend funds to qualified businesses for the purpose of meeting the requirements of the act. Incidentally, we, at that time, as representatives of our former employer, Olson Farms—then the largest publicly held egg production, processing, and marketing company in the country—were instrumental in drafting and supporting the legislation. We worked hard to include the SBA lending provision in the bill, not because we ever dreamed of being a beneficiary of the act but because we firmly believed that no person should be legislated out of business without any hope of recourse or assistance. Subsequently, we learned that at that particular time, this inclusion was required in compliance legislation. The SBA suggested that we work with a cooperating bank under a guaranteed loan program. Again, the banks refused on the basis of "too much red tape" or "We either loan directly on your own merits or not at all."

Simply, the next 6 months were trying. We had to remodel our facility without any money or be out of business July 1, 1971. At the risk of being trite, there was a statement that carried us and me through this particular time in our business from my old coach at UCLA. One of the 10 commandments of football was, "If at first the game or breaks go against you, don't give up, put on more steam." We had at that time what we thought was every possible break going against us. But in spite of that, somehow, we were filled with confidence. In spite of the difficult and frustrating negotiations with the SBA, primarily because we were not experts in business finance, the SBA guided us through what we needed to do to qualify and obtain a direct loan. The SBA believed our projections. They recommended we obtain new subordinated debt or equity of an additional $100,000, which we did, in a 3-day period, and even though the SBA was fully collateralized with business and personal assets and guarantees, I choose to believe that the reason the loan was funded was because the people at the SBA were convinced that we would totally commit ourselves to meeting our projections and our obligations. The SBA's confidence has been justified. Brasher Brothers, Inc., not only met its sales projections but beat them.

In 1971, 4 or 5 months from the day we purchased the business to the end of our fiscal year, we projected $1 million in sales and achieved $1.1 million.

By 1975, against our $4.9 million projection, we achieved $6.4 million in sales. The sales for fiscal year 1984 were $14 million, not including our participation in sales of $6 million of our 50 percent owned food distribution company, California's Finest Eggs.

The previous testimony indicated that somewhere in the early 1980's this company had some difficulties and purchased some businesses that didn't perform as well, and I was sitting back saying: "That sounds a great deal like Brasher Brothers."

We got involved in some areas of the egg business and expanded rather dramatically, and the investments proved to be very poor timing, in retrospect. It was very difficult, and, as a result, we spun off one of our divisions and formed another company, which is now 50 percent owned but which is profitable.

Over the years, we have viewed the SBA as our partner. Each time we have requested modifications in our loan agreement—that is, profit-sharing contributions, capital investments, increased salaries, debenture retirements—we've also made voluntary corresponding principal reduction payments. The street has run both ways, with the net result after 13.5 years being 83 percent of our loan repaid. With continued good fortune, our loan will be retired in less than 18 years.

All of us see every day in the newspaper, in the business section and even on the front page, defaults, bankruptcies, and so forth, of such companies as International Harvester, Air Florida, Penn Square Bank, Home State Savings and, recently, Oak Industries, with a negative net worth of $58 million.

After seeing defaults on numerous conventional multimillion-dollar loans, guarantees and investment made by major banks, investment bankers, asset-based lenders, and private investors to so-called financially strong companies with excellent track records and bright futures, I've come to the conclusion that private lenders are not the exclusive haven of sound business judgment. The Small Business Administration invested not only dollars but time to learn about Brasher Brothers, the egg products industry, and the people involved. Others did not. The result is that a small, independent egg business, instead of quietly disappearing, remained and grew strong.

Today, Brasher Brothers provides a solid outlet for California's independent egg producer supplies and a source of the highest quality, competitively priced egg products for the West's major food processors.

In conclusion, our suppliers, customers, employees, debenture holders, and Joe and I are ever mindful of the continuing support and confidence the Small Business Administration places in Brasher Brothers, Inc.

Thank you.

Mr. TORRES. Thank you very much, sir.

We'd now like to hear from Mr. Pietro Vitale.

TESTIMONY OF PIETRO VITALE, PRESIDENT, OH BOY! CORP., SAN FERNANDO, CA

Mr. VITALE. Honorable members of the Committee on Small Business, I am grateful for the opportunity I have today to thank your committee for what they did for our company.

I made several trips to Washington, DC, and I met a lot of your colleagues. I felt, on a bipartisan policy, it was the best committee for our needs as small businessmen.

It's a long story. I came to this country; I started a business; I felt the difficulty of growing. Everything looked to be very nice in 1971.

I was devasted by the earthquake in February 1971. We were desperate. We were in the center of the earthquake area. It had completely dismantled part of the building—equipment, inventory. I didn't know where to turn.

At that time, the Small Business Administration was contacted, and the assistance was there. Otherwise, no more Oh Boy!

Consequential to this, to be brief, during the 1973 freeze imposed by the Government at that time, we had tremendous losses. We needed additional assistance. No bank or financial institution would touch us. We went directly to the SBA. At that time, we were able to obtain an additional loan, guaranteed.

I must be an habitual borrower from SBA because in 1981 the compliance loan had to come again to the assistance of the company. We had to demonstrate that without the financial help of SBA we could not survive.

The Federal Inspection Section of the Department of the Agriculture told us, "Either you do the following things and you change other things. Otherwise, we are going to close you up." That's when the Committee on Small Business of Washington was instrumental in obtaining for our company this loan, the last loan that we got.

I heard my colleague on my right over here talking about their growth, their suffering, their trying, their obtaining. I think that the small business of this country needs the recognition for what we are doing night and day to keep our economy up.

I think, like my colleague Mr. Long said, it's not necessary legislation can come and say small business doesn't exist any more. I feel that all the circumstances may come when I have to come again and say, "The bank doesn't give me anything. What can we do?"

Now, you already saw in my preceding testimony that all of us, we work hard to save our company, to assume our responsibility, and we like to continue being in business, not being swallowed by the big company that always knocks at the door to come over here and take us over.

So, I appreciate very much, and I think that this is a human element that he's talking about. You know, this country is great for helping small business that is part of the minority of this country anyway.

So, I appreciate very much what the committee is doing all over the country to try to get testimony in favor of leaving alone the Small Business Administration.

Thank you.

[Mr. Vitale's prepared statement follows:]

Prepared Statement of Pietro Vitale, President, Oh Boy! Corp., San Fernando, CA

"Oh Boy!" Corporation is a manufacturer of specialty frozen food products, which are sold under the nationally recognized brand name of "Oh Boy!."

The company has been in existence for 30 years. Its sales have grown from $300,000 to in excess of $8 million annually, and presently employs 150 workers, principally of minority ethnic nationalities.

The company has manufactured its products since 1962 in its present facility located at 1516 First Street, San Fernando, CA. The plant consists of approximately 60,000 square feet of manufacturing, office, and storage space.

The Small Business Administration has been an integral part of the company's growth. Without the aid and support of their programs the company would have been unable to survive. Specifically, the Small Business Administration provided funding to the company under the provisions of its programs for disasters, working capital, and compliance on three separate loans.

First, in 1971, the company was beset by the San Fernando earthquake which partially destroyed its building, equipment, and inventory. The company was unable to produce for several weeks. Around the middle of 1971 a $450,000 loan payable at 3 percent interest per annum over 30 years. This enabled the company to make the necessary repairs and replace its inventory.

Second, in 1973 the company obtained a $388,000 participation loan for working capital payable at 9.25 percent interest per annum. This loan was required by the losses caused by the price and wage freeze imposed upon our Industry by the Government.

Finally, the company obtained a $425,000 Compliance Loan in 1982 payable at 8.25 percent interest over 30 years. The company had suffered economic damage in view of the fact that the Federal Department of Agriculture imposed numerous sanctions on the company which required substantial improvements to its plant and equipment. In the event the company was unable to comply with said regulation it faced the possibility of closure.

In each instance the company undertook to borrow funds from primary lending institutions such as banks. The company literally went from bank to bank and was turned down. Further, there simply were no programs in the private sector equipped to respond to the disaster and compliance loan requirements imposed upon the company. The risk inherent in the problem which the company faced at that time were not within the lending policies promulgated by the banking community.

Even if such financing was available, the proposed repayment terms plus high interest rates would have placed a heavy strain on the company. The only financing which the company was able to obtain, was pledging its A/C receivables and inventory at a rate of interest of 10 percent over prime, equivalent to over 30 percent per annum through secondary financing.

The programs which the Small Business Administration underwrites on behalf of the general small business community are unique. These programs and the Small Business Administration afford companies like ours the opportunity to stay in business and maintain its competitiveness among the large companies in the same industry. The compliance loans which we have received have enabled Oh Boy! Corp. to expand its plant facility at San Fernando, CA through the addition of 10,000 square feet. The company consolidated its bakery facility into this new facility, thereby reducing duplicate overhead expenditures and eliminating transhipping and supervisorial costs. The company revamped and replaced its spiral freezer thereby increasing productivity 15 percent and reducing its spoilage facts in processing its frozen food products.

The infusion of money provided by the Small Business Administration was the sole factor which enabled the company to accomplish their improvements and place it in a position to extricate itself from the aforementioned adversities and achieve its current level of growth and profitability.

The impact of the Small Business Administration on the general economy and small business entrepreneur is unquestionably indispensable. The goods and services which we purchase and the people we employ are the cornerstone of the economy. The elimination of the support and assistance which this agency provides would be a calamity. It would remove the opportunities which I have described and which were otherwise unavailable. The Small Business Administration is the only Government agency which is essential to the survival of the small businessman.

Mr. TORRES. Thank you, Mr. Vitale, for your comments.

I'd like to invite Mr. Lucas now to provide his testimony to the committee.

TESTIMONY OF FRANK G.S. LUCAS, PRESIDENT, LEADTEC CALIFORNIA, INC., SAN FERNANDO, CA

Mr. LUCAS. Gentlemen, I represent Leadtec California, Inc., which is an apparel contracting organization that processes raw materials—piece goods—into consumer end products, such as jeans and sweatshirts, for nationally known brand label apparel distributors.

In my capacity as president and general manager, I am responsible for the overall functioning and welfare of the company. In addition, I am the company's sales person.

Leadtec California currently employs over 200 people. Employment figures fluctuate somewhat with turnover or special situations. Special situations in the past have been financial. We've been able to keep our people in the city of San Fernando quite steadily employed over the last 18 years, and, again, I would reference the special situations by saying that, as you will see later in my testimony, SBA has helped us to keep that employment steady.

Our first SBA loan was guaranteed through the Guardian Life Insurance Co. for a period of 8 years at 8 percent annual interest and in the amount of $150,000. That enabled us to purchase equipment and accelerate employment from 80 to 140 persons. At that time, we were 2 years old and could not get the banks to understand why a company should wish to expand and employ labor in a State where minimum wages were higher than in other States.

In 1969, there were only 40 to 50 contracting organizations such as ours in southern California, and I'm informed that today there are in excess of 3,000.

In the following 6 years, we progressed much according to plan and built our business to employ approximately 250 people, who became viable in the marketplace as our skills and efficiencies improved. Also during this period, I learned that guiding this company I was better as an engineer—which was my original training—than as a businessman, and I was very glad to avail myself of the SBA's SCORE Program, wherein I had the opportunity of counsel and furthering my education and the education of our management people in business practice from, I will call them, elder statesmen of industry, and that proved invaluable.

In 1976, we were hit by the first onslaught of imports from Asia. I might add that that's the major item still troubling not just our business but, as I'm sure you are aware, our industry in general. Suddenly, we were confronted with a complete erosion of the products we were accustomed to, the erosion of marketplace that is, and, in an effort to train our people on new products, an erosion of working capital. Again, the banks would not talk to us because of the uncertainty of our industry's fate at that time and our own low profit potential as compared to the high-tech industries that were growing up around us, and it was literally life or death in terms of finance. The SBA showed that they really did believe also in our projections and our dedication, I think would be the right word, and enabled us to receive a direct loan in the amount of $200,000 that is currently paid down to about $48,000, and it has enabled us—and only that enabled us—to keep our over 200 people working and surviving in one of America's few remaining craft industries.

It's my opinion that without recourse such as the SBA, we would not have been able to survive as a business enterprise and contributing to the overall economy of steady, dignified employment, as has happened to date.

As an afterthought to the notes I made earlier, I think perhaps one of the most important aspects that I now see is that in our efforts to obtain guidance and loans from various organizations, the only organization that I can think of at the moment that was completely impartial was SBA, and for that I thank them.

Mr. TORRES. Thank you, Mr. Lucas, for your statement.

Mr. White, in his testimony, indicated that today his company employs 240 people and has an annual payroll of some $6 million. Obviously, that payroll is one that provides for a large consuming public as these employees buy homes and automobiles, and they pay taxes, and they pay FICA, and they provide an income to this community.

I'd like to ask the other witness—Mr. Long, if he could just give the committee a broad brush stroke example of exactly how many employees you now have and what your particular payroll is.

Mr. LONG. Our employee base in 1971 was less than 20. Today, it's greater than 70, on an ongoing basis, and that, from a payroll standpoint, runs about $1.3 million a year.

Mr. TORRES. A million three in payroll?

Mr. LONG. Yes.

About 80 percent of the payroll is in Burbank itself, but 15 percent is in Escondido in San Diego County, and 5 percent is in Hemet in Riverside County.

In 1971, there was no equivalent payroll in Escondido, nor was there an equivalent payroll in Hemet. So all of the increase is absolutely new employment. It's not acquisition of existing employment.

Mr. **Torres**. By new, are you saying that you took people off the unemployment rolls and provided jobs?

Mr. **Long**. I'm not sure where they originated—where they came from, but these are all new jobs that were created by extensions of the egg product business, and there was capital investment required in each of these other locations.

There's been additional capital investments in the Burbank facility. There are now two facilities in Burbank, as opposed to one, and in all of this I have not included our 50 percent ownership in our distribution company, and that payroll is about 15 people, again starting from ground zero in 1971.

Mr. **Torres**. Thank you.

Mr. Vitale, what can you tell me about your employment figures and perhaps your payroll figures?

Mr. **Vitale**. The Oh Boy! Corp. employs at the moment about 150 workers on a payroll that is a little over $2 million a year, naturally, indirectly adding a tremendous amount of brokers, salesmen, and distributors, you know. They all depend on the company indirectly. So you are talking about another couple of million dollars there.

This is everything thanks to the SBA that saved the company's life and my own life, too.

Mr. **Torres**. Thank you.

Mr. Lucas, can you give me a reasonable——

Mr. **Lucas**. Yes, sir.

We employ normally about 250 people. I think perhaps it is important to recognize, as I've said earlier, that ours is a craft industry. We absorb many people that perhaps are not as well educated as is necessary in the so-called higher tech industries, but we find that we have very skilled people, and these are skill requirements.

I think the fact that most of our startup costs, any given season, really go into the training phase, or the training costs, of making people efficient, in itself, contributes to keeping people, if you will, from the unemployment office.

Mr. **Torres**. What sort of return in terms of payroll do you have? What's your annual payroll?

Mr. **Lucas**. I'm not exactly sure of the figures at the moment, but it's certainly well in excess of $2 million.

Mr. **Torres**. Very good.

Representative Hayes, I'll turn the microphone over to you for any questions you may have.

Mr. **Hayes**. A couple of questions first of Mr. White as head of Datametrics, I believe.

Mr. **White**. Yes, sir.

Mr. **Hayes**. I see you've benefited both as a corporate entity and personally.

Mr. **White**. Yes, I did.

Mr. **Hayes**. I understand you were hit by an earthquake, which is unfortunate.

In your summation, you said you wanted us to please accept your testimony that the Small Business Program and the Certificate of Competency Program of the Small Business Administration have greatly benefited Datametrics Corp., which has developed into an outstanding industrial asset.

I agree with your summation. I just wonder if there's any particular reason why you didn't make the point that this program with Small Business should be continued.

Mr. **White**. Well, I thought that was implied by my support.

Mr. **Hayes**. Well, I don't like implications.

Mr. **White**. Well, let me do add then that the loan program and the COC Program, in our experience, should certainly be continued.

Datametrics' experience shows that, had the SBA not been in existence or the COC Program not been in existence, it would not have been awarded the important Air Force and Army contracts that came at a critical time in its growth.

In addition, had the SBA not had a loan program, it would not have been able to borrow the money in 1973 that put the company on a progressive course for the next few years.

Certainly, those programs must be continued.

Mr. **Hayes**. Sometimes it's helpful to us, as members of this committee, to be able to show to our colleagues who, at some point, may have to vote on the issue of whether or not these kinds of programs should be continued, testimony in support of these programs. The views of successful program participants certainly could be helpful in convincing our colleagues. That's the reason I suggested it might be well if you give that some consideration.

Now, you, Mr. Vitale, are head of Oh Boy! Corp., but I haven't seen a prepared statement.

Mr. **Torres**. Don't you have a copy of the statement?

Mr. **Hayes**. I don't think I have it here. Maybe it's over there.

Mr. **Vitale**. Let me read the last part.

Mr. **Hayes**. I just wondered what Oh Boy! was. That's what I wanted to ask you.

Mr. **Vitale**. OK. Oh Boy! Corp. is a manufacturer of frozen specialty foods—frozen foods.

Mr. **Hayes**. Oh, frozen foods.

Mr. **Vitale**. Right. I'm sorry you didn't have a copy.

Mr. **Hayes**. It may be here, but I may have gotten it tangled up. I thought it might have been a fast food kind of thing.

Mr. **Vitale**. No. It's wholesale to the supermarkets. You see it all over.

Mr. **Hayes**. All right; OK.

Mr. **Vitale**. Also in Washington, DC.

I'd like to read the end for your information:

> The impact of the Small Business Administration on the general economy and small business entrepreneur is unquestionably indispensable. The goods and service which we purchase and the people we employ are the cornerstone of the economy. The elimination of the support and assistance which this agency provides would be a calamity, like the one I went through. It would remove the opportunities which I have described which were otherwise unavailable. The Small Business Administra-

tion is the only government agency which is essential to the survival of the small business man.

Mr. HAYES. Very good.

Mr. VITALE. And if this message is given to all your colleagues, you know, it will have some effect.

Mr. HAYES. Thank you.

Mr. VITALE. We are ready to do it all the time you ask us to do it.

Mr. HAYES. I notice, Mr. Lucas, you made mention of the fact that you were hit by Asian imports in 1976, and you indicated that had some encroachment and that these imports had some impact on your business, too, here, as on other businesses.

I just wanted you to know, we're conscious of this problem, and you're right when you say you're not the only one feeling the effects of it.

We in Congress are trying to find a way to really get at this problem, with some difficulties, I might say, but despite these imports, I notice your efforts to survive and progress have been very good.

I just want to say in conclusion that all of your testimony has been helpful to me as a member of this committee. I'm not by any imagination a businessman by background. I want you to know that. I'm a trade unionist. I hope you're paying some decent wages to these employees that you have.

Mr. VITALE. We are.

Mr. HAYES. OK. Thank you.

Mr. TORRES. Thank you, Representative Hayes.

I want to thank the four witnesses for their very illuminating testimony this morning. It provides the basis for the continuing testimony we will hear from the financial institutions, from other beneficiaries of direct loan programs and assistance by SBA, and I thank you again for being with us on this Saturday morning. Good day.

Perhaps on that note, it would be appropriate if the next panel that I would invite to join us up here would be from the financial institutions area—specifically, bankers and their clients.

We've heard much about banks this morning and their particular attitudes towards small businesses. Some banks are difficult to deal with. Some testimony is that other banks are not as difficult and perhaps are the basis for the good success of many of the entrepreneurs that have availed themselves of small business loan guarantees.

So at this time I'd like to invite forth Mr. Frank Ures, the president of the American Pacific State Bank, if he would come up and take our first seat here; Mr. Jack Scheer, who is the president of the Burbank Plating Co.; and Mr. Leon Miller.

So if they'll please join us—thank you.

Let me ask you, gentlemen, especially Mr. Ures, before you make your testimony, to ponder a question that I'm going to ask, and I'll be asking this of the other bankers that come before us this morning.

Specifically, let me state it this way. Under existing law, SBA is required to give a guarantee of not less than 90 percent on small loans. Is that correct?

Mr. URES. That's correct.

Mr. TORRES. And SBA charges a 1-percent fee on this.

Senator Weicker of Connecticut is now proposing as a budget matter to change the fee to 2 percent and to change the maximum guarantee to 80 percent.

Let me ask you this question, and I ask the other bankers to ponder on this. What would this do to your particular bank?

TESTIMONY OF FRANK URES, PRESIDENT, AMERICAN PACIFIC STATE BANK, NORTH HOLLYWOOD, CA

Mr. URES. Well, first, I believe reducing the guarantee from 90 percent to 80 percent would probably have a devastating effect from the standpoint of most financial institutions who are in the SBA Program.

Our particular bank is larger than many independent banks in the SBA field, and it probably would not hurt us that badly at this particular point because we've been in business for 14 years, we have a tremendous amount of liquidity, and we feel pretty comfortable that we could probably operate with a lesser guarantee.

However, I don't believe the industry in general—the banking industry in general would go along with how our bank operates, because an 80-percent guarantee would probably knock out many prospective borrowers, the credit standards would probably be considerably higher, and I think many businesses would not be able to obtain an SBA guaranteed loan with the lesser guarantee.

As far as the 2 point loan fee, I believe we could probably live with that.

Mr. TORRES. I see.

Well, good. You may proceed then, sir, with your testimony.

Mr. URES. Thank you.

I'm glad to be here with all of you. I didn't realize it was going to be such a friendly atmosphere. I didn't know quite what to expect.

Mr. Chairman and distinguished committee members, my name is Frank Ures, and I am the president and chief executive officer of American Pacific State Bank. We have assets of $125 million, and our head office is located in North Hollywood, which is in the San Fernando Valley. We have four branches, and in our area there are about 250,000 people, about 7,000 businesses.

I would like to thank you for the opportunity to appear at this hearing and express my views concerning the continuation of the Small Business Administration as an autonomous agency and my view of its importance to the small business community.

First I would like to give you the benefit of our experience with the SBA Loan Program before discussing the main issue of this hearing, and that is the future existence of the SBA.

American Pacific State Bank has been consistently involved in the SBA program since its inception in 1971 and is one of the larger generators of SBA-guaranteed loans in southern California. I'm also pleased to say that I was a past recipient of the SBA Banker Advocate of the Year Award. SBA-guaranteed loans have long been our speciality, and we have made hundreds of such loans. We currently have a portfolio of about $24 million in SBA-guaranteed loans and employ a staff of highly trained personnel to service existing loans and to seek out quality loans—prospective borrowers. American Pacific State Bank is a member of the National Association of Government-Guaranteed Lenders, which is also a trade group representing many lenders and many of the major SBA loan guarantee programs, and we strongly endorse the recommendation of that association on this issue as well.

During the last calendar year, the American Pacific State Bank provided millions of dollars of long-term financing to scores of California small businesses. These businesses would not have received financial assistance of the same magnitude or for the extended terms provided without the SBA Loan Guaranty Program. Two such borrowers—to my left is Burbank Plating Service Corp., and Pacific Rents, both of whom have been invited to voice their actual experience with regard to the SBA Loan Guarantee Program at this hearing.

I'm also including as an exhibit to this statement letters from numerous other successful businesses which have been the recipient of an SBA-guaranteed loan at American Pacific State Bank. The attached letters typify firms that have been able to expand, increase sales, improve profitability, and increase employment because of the assistance they received under the SBA's section 7(a) Guaranteed Loan Program.

The Guaranty Program, when utilized properly, encourages lenders to accommodate financing of small businesses. Without the SBA Loan Guaranty Program, thousands of related jobs will disappear. This point is illustrated in a sampling in 1984 by our SBA head in our bank of 40 SBA borrowers who had an employment base of 648 personnel. These borrowers had hired an additional 269 employees since obtaining their SBA-guaranteed loan. This translates into a 41-percent increase in jobs as a result of obtaining financing through the SBA's section 7(a) Guaranteed Loan Program. In addition, during the last 5 years, we estimate that our bank, through the SBA Loan Guaranty Program, has helped to generate 2,500 new jobs, which translates into additional spending power of $40 million annually in our community.

Budget Director Stockman demonstrates a lack of understanding of the financial marketplace in his contention that Federal loan guarantees are unnecessary, that private capital sources alone are sufficient to finance business expansion.

The White House states that less than 1 percent of the Nation's small businesses receive an SBA loan in any given year. However, looking at the demand for long-term credit, the Government Accounting Office report finds that as much as 45 percent of all commercial bank long-term financing to small business is provided with an SBA guarantee. The statistic is based on information obtained from Dunn & Bradstreet and the Federal Reserve Bank. As a result, the administration's contention that the program serves only a handful of small businesses is misleading when considered in terms of demand for long-term financing. There is, in reality, a void in the financial marketplace. Without guarantees by the SBA, long-term capital is simply not available to many good quality, creditworthy small businesses. The SBA Loan Guaranty Program provides working capital for up to 10 years. Through conventional sources, if it's available at all, the maximum term would be 3 years. Simply stated, if $100,000 is amortized over 3 years, as opposed to 10 years, the monthly payments would be 124 percent higher, or on an SBA loan, the monthly payments would be $1,500 a month. On a conventional loan, if it was available, the payments would be $3,300 a month.

I might also refer to an individual looking to buy a house. If he finds the house he likes, and he can get a 30-year term, then he can afford the payments, but if the lender comes back and says, "I'm sorry, you've got to make the payments over 10 years," then that individual would not be able to buy a house.

As you can see from these examples, any short-term financing that might be available conventionally would make the monthly payments so high that the small businessman could ill afford to make the payments.

In attempting to measure the impact of the SBA Loan Guaranty Program upon small business, it is important to point out that the major purpose of SBA-guaranteed loans is to give small businesses access to long-term financing. It is the SBA Loan Guaranty Program that has made possible what little long-term financing does exist for most small businesses.

As a matter of information to this committee, we are informed that on March 12, 1984, the New York Times disclosed that Merrilatt Industries, which was Mr. Stockman's example of an extremely successful business which had achieved international financial prominence without SBA assistance, was in fact the recipient of a 90 percent SBA-guaranteed loan in 1958.

The administration also points to misleading statistics in its contention that default rates on the Loan Guaranty Program are unacceptably high. Well, they are not for the section 7(a) SBA Guaranty Program.

Many of the loans that do go into default and are purchased by the SBA from lenders are turned around, made viable, and are eventually paid off by the borrower, or the loans may end up being liquidated, but the SBA collects all it can from the property pledged as collateral for the loan. SBA's actual loss rate on section 7(a) guaranteed loans through the end of fiscal year 1983 was less than 5 percent, which is remarkably low in today's economy.

Mr. Chairman, the partnership of lenders and the SBA is making a contribution. We are providing long-term financing to good quality, creditworthy companies, financing that is simply not available from conventional sources. Without the Loan Guaranty Program offered by the SBA, thousands of small businesses would go without the financing necessary to enable them to expand, create new jobs, and generate more tax revenue to the Federal Government.

As your committee is aware, there are 14.2 million nonfarm businesses in the United States, which account for 97 percent of all businesses and create over 80 percent of all new net jobs. Small businesses employ 48 percent of the private work force, contribute 42 percent of all sales in the country, and are responsible for 38 percent of the gross national product.

It has been estimated that for every $1 billion of SBA-guaranteed loans, approximately 100,000 new jobs are created or retained. As a result, the Government realizes a significant return on its investment through increased business and personal taxes as well as a savings on welfare compensation payments. In fact, it has been estimated that each dollar of SBA financing generates $7 of revenue to local and Federal Governments. In effect, the SBA Loan Guaranty Program returns money to the Government after covering the cost of administration and losses.

In another example involving 15 counties in California, a total of 4,000 jobs were created or retained due to small business receiving SBA-guaranteed loans. Based upon statistical information provided by the SBA, one job was created for every $13,000 in SBA-guaranteed loan funds in the sample area. This, of course, is accomplished with no cash outlay by the SBA. This, of course, is accomplished with no cash outlay—or I should say all of these are funded by our bank. In comparison, the Department of Defense has stated that for every $1 billion expenditures, 35,000 jobs are created or retained. This equates to approximately $28,000 per job. The Department of Defense's figures are direct outlays paid for by the taxpayers. So, for every $1 billion in SBA-guaranteed loans, 100,000 new jobs are created or retained. For every $1 billion expended by the Department of Defense, only 35,000 jobs are created.

While each of the programs offered by the SBA must be judged on its own merits, it seems apparent that criticism of the SBA Loan Guaranty Program is unjustified, considering its importance as a source of long-term capital for small businesses. Further credence to this matter is offered as a result of a recent meeting of 125 trade organizations representing 5 million small businesses wherein they strongly oppose the proposal by Office of Management and Budget Director David Stockman to eliminate the Small Business Administration.

I'm attaching a list of the organizations that voiced such opposition.

As an active commercial lender, I'm very much aware of the productivity and job creation potential of small business. To eliminate the SBA and its Loan Guaranty Program would create a shortage of capital necessary to finance the growth of what is recognized as the most productive sector of our economy and would be counterproductive to achieving the economic goals of the Reagan administration.

In conclusion, I want to stress the following to this hearing committee:

(1) The SBA must maintain its status as an autonomous Federal agency.

(2) The loan guaranty programs of the SBA must remain at least at 1985 levels.

(3) Loan guaranty programs fill a void in the financial market by providing long-term financing to quality growing businesses that is not available conventionally.

(4) Loan guaranty programs help maintain and create jobs and help to generate income to the Federal Government through income tax.

(5) Loan guaranty programs are the ideal partnership of the private sector and the public sector working together to help create jobs.

(6) The end of Government guaranteed lending to small businesses will mean the end of many small businesses and the end of

many jobs. The final result will actually be less tax revenue from small businesses and related employees due to the halt in growth and expansion in this sector of our economy.

In summary, I truly believe I know as well as anyone what the small businessman needs in my community. It's the availability of long-term financing. I'm talking 10- to 25-year financing, not 3-year financing, if, in fact, that's available at all.

My bank and the SBA are partners, and we provide this type of long-term capital financing. There is no other place and no other way to obtain this capital without the loan guaranty program provided by the SBA.

The Small Business Administration must continue to stay in business as an autonomous Federal agency, for without the SBA and without the Government-guaranteed lending program, the end will come to thousands of small businesses, and it will mean the end of thousands of jobs, resulting in less tax revenue from businesses and individuals, greater unemployment, and a halt to the growth of our economy.

The SBA Guaranteed Loan Program provides an inexpensive and revenue-producing program which more than pays in revenue what it costs to operate. I know it will have a devastating effect in my community if the SBA is abolished.

Mr. Chairman, I want to thank you again for allowing us to express our opinion and the results of my experience regarding the SBA Guaranteed Loan Program.

Now that I've had time to ponder your original question, I think I still feel the same way. The 90-percent guarantee and the 2-percent—I wasn't prepared for that, by the way—I do feel that a reduction in the guarantee, since we are so close to so many other banks in California—those banks that are in the program, I believe many of them would probably have to drop out of the SBA-guaranteed program if the guarantee were dropped.

As far as the 2-percent guarantee fee, that probably is negotiable, and our bank could probably work with that additional income for the Government.

Thank you.

[Exhibits to Mr. Ures' testimony follow:]

EXHIBIT I

Lance
The Family Campers

March 21, 1985

Mr. Frank Ures
American Pacific State Bank
6350 Laurel Canyon Blvd.
North Hollywood, CA 91606

Dear Mr. Ures:

I would like to take this opportunity to comment on the Administration's proposal to eliminate the Small Business Administration as part of a plan to reduce federal deficits.

In 1974, our company was near bankruptcy caused greatly by the 1973 oil embargo, and the inflation that ensued. We could find no commercial lending institution to invest in our company's chances of survival. As a last ditch effort, we applied for and received a $100,000.00 "SBA EMERGENCY ENERGY LOAN."

The immediate effect of this cash flow availability, was that twenty peoples jobs were saved and creditors were remunerated. As part of the SBA's services, the University of Southern California did a review of our company regarding sales, marketing, and distribution. The analysis gave us many insights into how we could re-structure our company to be more competitive and profitable. Many of the suggestions were utilized and have been responsible for our growth over the ensuing eleven years.

In 1983, our company again needed assistance for the acquisition on a new facility. Our company needed the ownership control of its own facility to more permanently control its future.

After a review of all of our options, we again turned to the SBA. The 7a Program with the participation of our local business bank proved to be the ideal vehicle for our needs. Our bank has committed itself to specializing and extending these types of loans to facilitate the growth of business in our community. Lance Campers was the benefactor

Lance Camper Mfg. Corp. • 10234 Glenoaks Blvd. Pacoima, CA 91331-1689 • 818-897-3155

continued-

of their committment and our Government's co-endorsement. Furthermore, I should note that our employee base has grown to over 140 individuals and gross sales will reach $10.5 million in 1985. Surely, you will consider the positive effects of the SBA programs as I know that there are a lot of companies operating in the black, as a direct result of the SBA program.

I urge you to VOTE "NO" on any proposal to eliminate the SBA.

Sincerely,

Jack Cole

Jack Cole
President
Lance Camper Mfg Corp.

JC/sp

SAMUEL CHEAN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANT

SAMUEL CHEAN, C.P.A.
FRED CHAZAN, P.A.
LEONARD SACKS, C.P.A.
CAROLYN La MANNA

SUITE 206
18801 VENTURA BOULEVARD
TARZANA, CALIFORNIA 91356
(818) 342-7707 (213) 873-3320

March 21, 1985

Mr. Frank Ures
American Pacific State Bank
6350 Laurel Canyon Blvd.
North Hollywood, CA 91606

Dear Mr. Ures:

I would like to take this opportunity to comment on the Administration's proposal to eliminate the Small Business Administration as part of a plan to reduce federal deficits.

Generally speaking, the small business owner is not looking to the government for a hand-out, a grant, or subsidy. What he does desperately need is a government program that makes it possible for eligible commercial lenders to finanace their business needs on terms that are reasonable, competitive and not out of line with terms available to big business owners. The SBA 7A Guaranty Program is such a program wchich provides lenders a vehicle to offer long-term financing (6 or more years) to the small and medium sized business community. In fact, approximately 30 to 40 percent of the dollar amount of banks long-term financing to small businesses may carry an SBA guarantee.

In addition, small businesses, without the SBA guaranteed lending program, will have a handicap in competing for traditional sources of investment capital (stock & bond markets), and economics of scale prohibit their access to venture capital money. As a result the small business communities access to capital will be severely curtailed if the SBA is eliminated.

The SBA 7A Guaranty Program with the support of Congress will increasingly enhance the ability of small business concerns to add employment, new products and services to the economic growth of our country in the future as they have in the past.

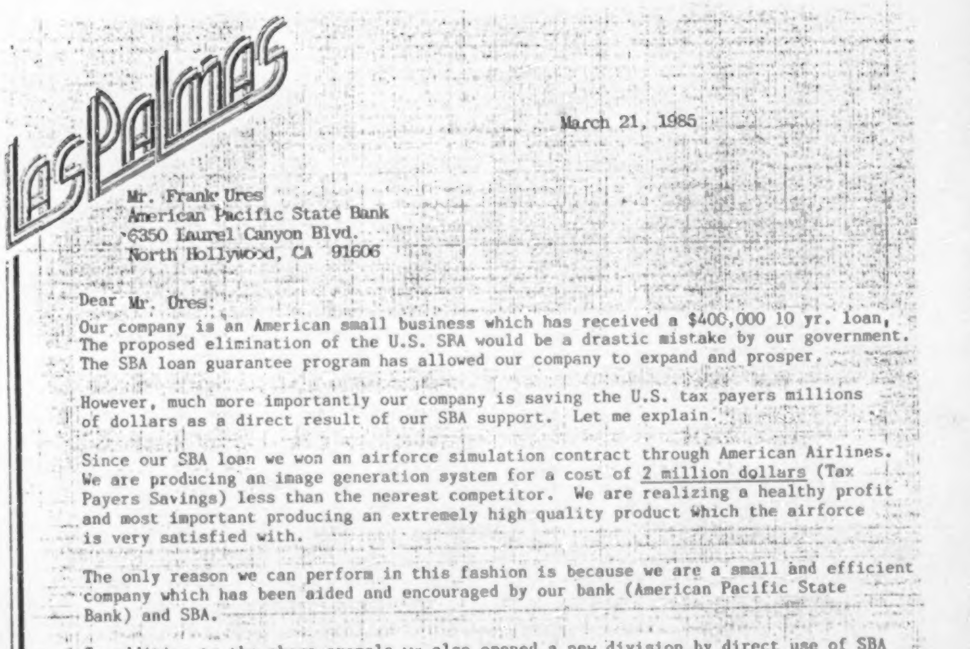
I urge you to VOTE "NO" on any proposal to eliminate the SBA.

Sincerely,

Samuel Chean

Samuel Chean & Associates
Certified Public Accountant
SC/af

MEMBER AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
CALIFORNIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS



Las Palmas

March 21, 1985

Mr. Frank Ures
American Pacific State Bank
6350 Laurel Canyon Blvd.
North Hollywood, CA 91606

Dear Mr. Ures:

Our company is an American small business which has received a $400,000 10 yr. loan, The proposed elimination of the U.S. SBA would be a drastic mistake by our government. The SBA loan guarantee program has allowed our company to expand and prosper.

However, much more importantly our company is saving the U.S. tax payers millions of dollars as a direct result of our SBA support. Let me explain.

Since our SBA loan we won an airforce simulation contract through American Airlines. We are producing an image generation system for a cost of 2 million dollars (Tax Payers Savings) less than the nearest competitor. We are realizing a healthy profit and most important producing an extremely high quality product which the airforce is very satisfied with.

The only reason we can perform in this fashion is because we are a small and efficient company which has been aided and encouraged by our bank (American Pacific State Bank) and SBA.

In addition to the above example we also opened a new division by direct use of SBA funds which in less than one year is generating exceptional positive cash flow, providing new jobs, and purchases from other companies.

Quite simply from our SBA loan we are enjoying strong growth, stimulation of the economy and saving tax payer dollars. How much of a success story does our government need to justify this program?

As an American small business we ask you to ensure that the SBA remains fully intact and oppose any elimination of SBA and its programs of loan guarantees and advocacy.

Let us not be so foolish as to not support the business heart of our country. New ventures, research and development, and the encouragement of the small businessman are required for America's continued grandness.

Sincerely,

Joe Matza
Vice President

Robert C. King
Robert C. King
President

JM/ed

Las Palmas Productions Inc., 1138 North Las Palmas, Hollywood California 90038 • (213) 467-5222

BROADWAY ENGINE REBUILDING CORP.
2012 SOUTH MAIN ST.
LOS ANGELES, CALIF. 90037
231-4191

March 21, 1985

Mr. Frank Ures
American Pacific State Bank
6350 Laurel Canyon Blvd.
North Hollywood, CA 91606

Dear Mr. Ures:

I would like to take this opportunity to comment on the Administration's proposal to eliminate the Small Business Administration as part of a plan to reduce federal deficits.

Generally speaking, the small business owner is not looking to the government for a hand-out, a grant, or subsidy. What he does desperately need is a government program that makes it possible for eligible commercial lenders to finance their business needs on terms available to big business owners. The SBA 7A Guaranty Program is such a program which provides lenders a vehicle to offer long-term financing (6 or more years) to the small and medium sized business community. In fact, approximately 30 to 40 percent of the dollar amount of banks long-term financing to small businesses may carry an SBA guarantee.

In addition, small businesses, without the SBA guaranteed lending program, will have a handicap in competing for traditional sources of investment capital (stock & bond markets), and economics of scale prohibit their access to venture capital money. As a result the small business communities access to capital will be severely curtailed if the SBA is eliminated.

The SBA 7A Guaranty Program with the support of Congress will increasingly enhance the ability of small business concerns to add employment, new products and services to the economic growth of our country in the future as they have in the past.

I urge you to VOTE "NO" on any proposal to eliminate the SBA.

Sincerely,

Earl L. Claus

Earl L. Claus
President
Broadway Engine Rebuilding
Corporation.

Eagle Industries, Inc.
21125 Superior Street
Chatsworth, California 91311
Toll Free - 1-800-423-5139
CA Res. - 1-800-382-3643

March 21, 1985

Mr. Frank Ures
American Pacific State Bank
6350 Laurel Canyon Blvd.
North Hollywood, CA 91606

Dear Mr. Ures:

Without question several government agencies and programs fall far short of the SBA 7A guaranty program when the bottom lines are calculated.

As the scrutiny of the government guaranty to commercial lenders continues let us please evaluate beyond the surface level and let us look at the reasons the fertilizer is applied.

We as a successful small business (Due immensly to the assistance of the SBA) feel that if we are not the backbone of the nation, we are at least certainly one of the verterbrae. Our firm employs 55 taxpayers and from time to time needs financial aide to secure this employment.

Without SBA assistance we would certainly have a much more difficult time competing for those sources of capital which permit us to plan and accomplish not only our growth but also our stability and financial security.

Please seriously consider eliminating the one very positive program that encourages and enhances the up and coming prospects that need that vote of confidence from their Federal Government.

Thank You,

Paul Singagliese
Corporate Officer
Concerned Citizen
Eagle Industries

March 21, 1985

Mr. Frank Ures
American Pacific State Bank
6350 Laurel Canyon Blvd.
North Hollywood, CA 91606

GAILS LAUNDRY
9533 COZYCROFT ST.
CHATSWORTH, CA. 91311
(818) 341-5767

To Whom it May Concern:

As a very recent recipient of an S.B.A. loan I cannot see any Governmental advantage for its abolishment.

I had to go through a very stringent loan application and approval period. I had to put up my house and all other possessions (ie:insurance policies,cars,furnitue) as collateral. The only reason I went through the S.B.A. was I didnot have sufficient collateral for a conventional bank loan. had I qualified it would have been at a lower rate of inerest than I now owe on the S.B.A. loan. I am paying 2 3/4 % above prime, a nice profit to plow back intr the S.B.A. program at no cost to the government.

You may well believe with all my possessions as collateral I will be working very very hard to make a success of my business. I have more to lose than one who would not have needed the S.B.A. to gaurentee his loan.

I employ ten people and generate a $250,000.00 a year gross monies into the economy, by itself not that much but multiplied by thousands or maybe millions of other small businesses it would go a long way in the priming and continual growth of our econonmy. I do believe this was and is one of the prime objectives of President Reagan for the future stability of the United States in its role of leader of the Free World Nations.

Unlike the old S.B.A. loans and student college loans, which were never repaid, todays combined standards of the lending institutions and the S.B.A. for loan grants to segments of the population who will bust thier tails to make them work.

Payment schedules at 2 3/4% above prime rate gaurentees a return of monies and a self perpetuating growth of the program if it is handled in its present manner. Far from being a drain or detrement to todays economy it is a program that feeds and perpetuates the economy.

I thank you for letting you express my personal views on this subject and I do hope that you leave the S.B.A. programn intactd. It is one of the few remaining ways that an American has of making his future secure and dreams coming true.

Sincerely Yours

Gilbert B. Rothman

CHAMPION
TURF EQUIPMENT, INC.
330 S. Mission Road, Los Angeles, Calif. 90033 (213) 264-0746
MANUFACTURERS AND DISTRIBUTORS OF HORSE BOOTS, EQUIPMENT AND SADDLES

March 21, 1985

Mr. Frank Ures
American Pacific State Bank
6350 Laurel Canyon Blvd.
North Hollywood, CA 91606

Dear Mr. Ures:

I am shocked to hear that the Small Business Administration is in danger of being abolished. I have always considered this agency as a promoter of and encouragement to the business community and economy of the country, creating economic benefits, including employment and taxes that would not otherwise exist.

I have always considered the Small Business Administration to be one of those government agencies that in fact more than paid for itself by the benefits it created, especially tax revenues.

Our business has grown and expended primarily because of Small Business Administration financing--and today we employ as many as sixty (60) people at a time. If you multiply this by the number of other small businesses in a similar position, I am sure the impact on our employment figures and all the other benefits to the economy and the government, including taxes, make the benefit of the Small Business Administration one of the best investments our government has made.

If budget cuts are required, I am sure that there are many economies and efficiencies that could be used to streamline the Small Business Administration procedures. Maybe the direct loans by the Small Business Administration should be eliminated. But any limitation on the government guarantee of loans from the private sector would eliminate a major segment of the small business community, and in the long run detrimentally affect the entire economy and cost far more in lost taxes than the Small Business Administration budget.

Abolishing the Small Business Administration would be a false economy. Please vote to continue the important work of the Small Business Administration.

Very truly yours,
CHAMPION TURF EQUIPMENT, INC.
Norman Berliner
NORMAN BERLINER - President

NB:lb

CREDIT CARD SENTINEL, INC.

SHELDON KASOWER
CHAIRMAN OF THE BOARD

March 4, 1985

Mr. James Degnan
Executive Vice President
American Pacific State Bank
6350 Laurel Canyon Blvd.
North Hollywood, CA 91606

Dear Jim,

I still remember the first conversation as if it happened yesterday. My father, an 82 year old Russian immigrant, staring at me with an expression so incredulous that I almost burst out laughing. It started about seven years ago when I first told my father how bad it had become.

"Sheldon",
he said in a tone full of what can only be characterized as patronizing maturity, and uttered in that cold voice I grew to hate as a child.

"I told you once, I told you a hundred times you never belonged in the manufacturing business. You never knew your place, and you probably gonna lose everything you have because you wanted to be a big shot ... you couldn't see the truth."

"Who are you?"
Uh oh, I thought here it comes.

"...a nobody, with no money, a Jew with no connections". Please, Pop, spare me the anti-semitism conspiracy theory of business; I silently prayed, ... still afraid after all these years, to openly contradict him.

"Where I grew up we all knew our place..."
"A Jewish boy from a poor home studied and studied and if he was lucky he was able to get a job as a teacher -- or get a job working with books."

"He got married, had children and if he didn't do anything stupid he survived more or less. Life is hard, unfair and you must learn to walk sideways so no one sees you or tries to take away what you have. Understand?

"But Dad",
I said timidly, --- entering the lion's cage.
"This isn't Russia. This is America. What I'm trying to do is what America is all about. Why should I be happy to live life expecting at the best to be left alone ... or maybe work on somebody's books or legal problems."

Warming to my theme, I began to get angry as those years of surpressed ambition were vented for the first time.

"Let them work for me. Why the hell not! I'm just as smart as "they" (For those of you who didn't grow up in a Jewish neighborhood "they" are the goyim who run the world ... at least in the anti-semitic conspiracy my father loved to lecture about.)

Angrier still, I lost my temper and screaming at him I poured out all the anger I had been carrying for so many years.
"I know I can do it, and nothing you say is going to stop me ... all you've done these past few years was to teach me that I'm nobody special and that the whole world is gonna stop me from doing something on my own. That's bullshit and you ain't gonna stop me with all that paranoia you brought from Russia This is America and there's no limit ... there really isn't.

Calming down a bit, I realized that nothing I could possibly say would change the mind of this old man who grew up with first hand experience of Russian life and hopelessness ... escaped to America to find that the streets were not yet paved with gold; and worked from dawn to dusk every day of his life to provide his children with food, a home and enough direction to make sure that they got an education.

Opportunity for his children was measured in generations not minutes, and nothing on earth would let him believe that this country represented a revolution in the calendar of opportunity.

Staring into his face, I knew that he really believed that it wasn't possible for a young Jewish boy to get money, lots of money, from strangers who didn't even know him, and then build a factory with it.

"Schmuck!!!", he screamed finally losing all control.
"You...you're gonna build a factory"
"You don't have any money, you don't know the first thing about manufacturing anything, and all you'll do is destroy the life of the children and...your ... ...your wife's.

"Jesus Christ", I remember thinking to myself ... he still can't remember my wife's name.

"But, Dad, if you wait till you know, if you wait till you have all the money, if you wait until everything is perfect you never do anything"

"Oh, the stupidity of youth". He breathed looking at me with that smug look that signaled the concluding logic, the end of the argument. Clarence Darrow himself summing up before the jury.

"I told you when you first started you didn't have enough money, those few people who put up the money were fools. Who are you to compete with Schwinn, with the other huge factories doing millions of dollars a year in business."

"You said you know better then they, you were smarter, you could build a better bicycle ... all you had was a stupid childish fantasy and you cost all those people the few dollars they had."

"I said it then and I'll say it again, you deserve to lose everything because you don't know your place."

"Place", I screamed, "place ... there's no such thing as goddamn place in America".

"This whole country works to give people like me the opportunity, to allow me to grow and reach the stars. The only thing limiting what I can do is the narrowness of my imagination and my father's fears ... I'm gonna get the money to survive and make our factory grow because this is America and there's always a way".

Not surprisingly, I sounded a hell of a lot surer than I really felt. As a matter of fact, before losing my temper, I was pretty sure Dad was right. Who was going to give me the money I needed to keep Sentinel Bicycle Manufacturing Company alive?

When we started about four years ago, we were terribly undercapitalized. Not because of a desire to work on a shoestring but because, as is often the case with youth, undercapitilization is a badge of courage. After all anyone can do it with money.

Looking back, I really believe that I didn't understand in those first two years what undercapitilization really was. For sure, I didn't really have any visceral understanding of "inventory" or "receivables" but I did know that building a bicycle could not be all that hard.

And ... for a couple of years it really wasn't that hard. Sure, there were weeks I didn't see my family, months where the pressure of production, collections, personnel problems to say nothing of the ever increasing problem of selling kept me worried all the time. But we grew and learned, and negotiated and almost, but not quite, prospered.

Then it really started to get bad. By the middle of the fourth year the bicycle industry was in shambles. Estimates that there were three to five years of unsold bikes plagued the market -- and drove the price of bicycles through the floor. The Taiwan and Japanese bicycle industries dumped untold tens of thousands of bicycles into this market at prices that were less than half of what we paid for the parts alone. Dealers and distributors expected prices well below cost -- and payment terms running into the years.

I began spending all my time between selling bicycles, keeping angry creditors at bay and looking for financing. I pleaded with everyone I could find to buy our bicycles ...

Ours was the first bicycle, made in the United States, that compared favorably with those built in Europe and the Orient. Couldn't anyone see that this market glut was temporary and that when it was over companies like mine would be necessary to keep America competitive in the bicycle industry.

Needless to say, no one cared, and in retrospect they perhaps shouldn't have cared. The U.S. was in the middle of the deepest recession that I could remember and everyone had their own problems. Buying my bicycles would probably give them more problems.

I was really at the end of my string. The Bank of Boston, who had been giving us small amounts of capital under ever increasing constraints told me that because of a change in their policy the Los Angeles office was told to get out of financing anything to do with bicycles.

"We would like you to pay us off completely within thirty days" Steve P. Barrington, V.P. intoned with all the feeling of a corpse ... responding, I thought, with a marked lack of enthusiasm to my request for an additional hundred thousand dollars.

"What! Are you crazy", I said trying to keep from laughing in this fool's face. "I don't have the six thousand dollars I need for this week's payroll -- where the hell am I going to get the two hundred and fifty thousand dollars I owe you."

He looked at me stonily for about twenty seconds ... waiting for me to say something else. Trying to make me feel as uncomfortable as possible. To hell with him, I thought to myself, and remained silent.

Finally he rose, still quiet, and walked across the highly lacquered wood floor to the floor to ceiling window. I bet the "son of a bitch" practices this, I thought to myself.

With his back to me he very carefully, and almost condescendingly explained that we just didn't fit into the grand scheme of the bank anymore and that if I didn't pay him off within thirty days then ...

He was still talking as I got up and walked out of his office. He could do whatever he wanted but I suspected that like most things in the world our payoff would be negotiable ... especially since I believe our line of credit was probably greater than the net worth of the company or my personal assets ... and without my cooperation they would have to write off most of the loan.

However, much as the thought of that smug bastard having to justify a hundred thousand dollar write-off to his bosses in Boston delighted me; I still had the rather enormous problem of finding more money ... now $250,000 more than I needed an hour ago.

Enter Steve Grief.

And what a relief. If someone else would tell me that salvation would bring me a stranger looking for small companies in need of capital, I would have died laughing ... except I didn't laugh much in those days.

"You are a what!" I said incredulously.

"That's right", he laughed -- noting my discomfiture. "I really am a director, and shareholder of American Pacific State Bank", he paused to let the effect sink in.

"... and furthermore I'm going to really show you a way we can help your company."

"Christ", I muttered knowing I've got another scammer on my back. The only thing he wants is a free bicycle -- I thought to myself.

Steve turned out to be quite charming and made it clear from the beginning that he knew we were in bad shape and needed financing badly. And that didn't scare him.

We talked for a couple of hours - I ... carefully pointing out our financial situation. He ... carefully avoiding walking a tour of my factory.

Steve took our financial statements and told me he'd get back to me in a couple of days with a request for a meeting with him, his boss and myself.

"Let me get this straight, Frank", I said a few days later to Frank Ures, the President of American Pacific.

"You are actually willing to put together a financing package for us"

Frank smiled at me through his rather thick horn rimmed glasses and said,

"You're goddamn right."

I looked at him as if he were crazy. We were absolutely unbankable. Most of our capital tied up in extremely slow receivables and inventory that was not going to be sold for a couple of years -- and this fool is acting like he wants our business.

Sure, he knew that if we survived we would employ several hundred people, we would be a great loyal customer of his bank; and, if he pressed me I would wash his car and shine his shoes every morning before the factory opened.

"We'll take some of the loan ourselves", he said "and we'll get an SBA guarantee for the rest. With that we'll pay off Bank of Boston and give you enough operating capital to get your business working the way it should."

"SBA" I said imagining (and then looking forward to) all the restrictions, all the conditions, and all the aggravation I could imagine a government loan could be.

Frank said, "Don't worry, it's nowhere as bad as you think and it's necessary. It fills the gap that let's guys like you fly."

Six weeks later the conversation I had with my father was finally concluded.

He looked down at the Cashiers Check lying on our kitchen table. He looked at it for a full ten minutes without saying a word.

He looked up at me, tears rolling down his aged seamed face, and in that moment I saw the light of understanding as he whispered barely loud enough for me to hear "Only in America, only in America.""

Jim, I think the above really describes the SBA ... please don't let "them" take it away.

Regards,

Sheldon

Sheldon

Puerta del Sol
FINE FOODS OF MEXICO
11669 SHERMAN WAY
NORTH HOLLYWOOD, CA. 91605
982-1336

March 11, 1985

Mr. James M. Degnan
American Pacific State Bank
6350 Laurel Canyon Boulevard
North Hollywood, CA 91605

Dear Mr. Degnan:

I would like to take this opportunity to comment on the Administration's proposal to eliminate the Small Business Administration as part of a plan to reduce federal deficits.

As you are well aware, the small business owner is not looking to the government for a hand-out, a grant, or subsidy. What the small business owner needs is a government program that makes it possible for eligible commercial lenders to finance their business needs on terms that are reasonable, competitive and not out of line with terms available to big business owners. The SBA 7A Guaranty Program is such a program. It provides lenders a vehicle to offer long-term financing, at six or more years, to the small and medium sized business community. In fact, approximately 30 to 40 percent of the dollar amount of banks long-term financing to small businesses may carry an SBA guarantee.

If small businesses were denied such an SBA guaranteed lending program, they will have a serious handicap in competing for traditional sources of investment capital (stock and bond markets) and the economics of their scale will prohibit their access to venture capital money. As a result, the small business communities' access to capital will be severely curtailed if the SBA is eliminated.

SBA 7A Guaranty Program should have the support of Congress, thus continuing to enhance the ability of small business concerns to add employment, new products and services to the economic growth of our country in the future, as they have in the past.

I urge you to VOTE "NO" on any proposal to eliminate the Small Business Administration.

Sincerely,

Jill S. Chacon

Jill S. Chacon
President

JSC:sc

SHIPMAN STAMP MACHINES, INC.

1326 South Lorena Street • Los Angeles, CA 90023 • (213) 261-5137

February 21, 1985

American Pacific State Bank
6350 Laurel Canyon Blvd.
No. Hollywood, CA 91606-3274
Attn: Mr. James E. Whitney

Re: Small Business Administration Loan

Dear Mr. Whitney:

I would like to take this opportunity to again extend my appreciation for the assistance I received from your bank in obtaining the small business administration loan which has proved to be so helpful in our business. I would like to share with you some of the many improvements and benefits that is has made possible.

The most direct and immediate benefit is that it has made it possible to put ten more people to work in this business and has provided a tremendous growth in our sales volume which is anticipated to increase $700,000 in 1985.

Both the public and the post office have benefited as a result of this funding in that the increase of the sales of postage stamps through Shipman equipment is not only a great convenience to the public, but it allows the marketing of a greater number of postage stamps at a significantly smaller cost to the United States Post Office. Of course, the greatest advantage to the public consumer by the expansion of the availability of our equipment and services is that our marketing program offers the consumer a greater value than previously available to him through vending equipment. This is so because our marketing system, unlike former systems, does not force the consumer to purchase unwanted denominations of "junk" or "filler" stamps which are inserted into the machines only to meet the vending limitations of out-dated equipment.

Again, I am happy to be able to share with you the successes which have been made possible through the small business administration loan and as a result of your aid in helping us realize our goals.

Sincerely,

SHIPMAN STAMP MACHINES, INC.

William G. McLellan
President

WGM:sn

EXHIBIT II

American Association of MESBICs
American Association of Nurserymen
American Bus Association
American Optometric Association
American Textile Machinery Association
Amusement and Music Operators Association
Architectural Precast Association
Associated Equipment Distributors
Association of Independent Corrugated Converters
Association of Physical Fitness Centers
Association of Small Research, Engineering & Tech. Service Companies
Automotive Service Councils, Inc.
Automotive Warehouse Distributors Association
Building Service Contractors Association International
Business Advertising Council
Chicago Gift Show, Inc.
Christian Booksellers Association
Direct Selling Association
Electronic Representatives Association
Florists' Transworld Delivery Association
Furniture Rental Association of America
Greater Wash. Ibero-American CoC
Helicopter Association International
Independent Bankers Association of America
Independent Media Producers Association
Independent Sewing Machine Dealers Association
Institute of Certified Business Counselors
International Franchise Association
International Reciprocal Trade Association
Latin American Manufacturers Association
Machinery Dealers National Association
Manufacturers Agents National Association
Marking Device Association
National Association of Business Development Corporations
Southeastern Lumber Manufacturers Association
National Association of Women Business Owners
Small Business United
Association of Small Business Development Centers
Latin American Manufacturers Association
Small Business Association of New England
Smaller Manufacturer's Council
Independent Business Association of Wisconsin
Council of Smaller Enterprises
Small Business Association of Michigan
The Texas Association of Small Business Councils
Denver Chamber of Commerce Small Business Council
New York State Independent Business Association
Independent Business Association of Illinois
Independent Business Association of Minnesota
Ohio Small Business Coalition
Small Business High Technology Council

Menswear Retailers of America
National Association for the Self-Employed
National Association of Architectural Metal Manufacturers
National Association of Brick Distributors
National Association of Catalog Showroom Merchandisers
National Association of Chemical Distributors
National Association of Cold Storage Insulation Contractors
National Association of Home Builders
National Association of Manufacturing Opticians
National Association of Minority Contractors
National Association of Plastics Distributors
National Association of Plumbing-Heating-Cooling Contractors
National Association of Realtors
National Association of Retail Druggists
National Association of Small Business Investment Companies
National Association of Solvent Recyclers
National Association of the Remodeling Industry
National Association of Trade & Technical Schools
National Association of Women Business Owners
National Automobile Dealers Association
National Candy Wholesalers Association
National Council for Industrial Innovation
National Electrical Contractors Association
National Family Business Council
National Fastener Distributors Association
National Grocers Association
National Independent Dairy-Foods Association
National Moving and Storage Association
National Office Products Association
National Oil Jobbers Council
National Parking Association
National Precast Concrete Association
National Shoe Retailers Association
National Small Business Association
National Small Business Government Contractors Association
National Society of Public Accountants
National Spa & Pool Institute
National Tire Dealers & Retreaders Association
National Tooling and Machining Association
National Tour Brokers Association
National Wine Distributors Association
Opticians Association of America
Power and Communications Contractors Association
Retail Bakers of America
Retail Floorcovering Institute
Retail Tobacco Dealers of America
Small Manufacturers Council
Specialty Advertising Association International
United Bus Owners of America
United Federation of Small Business
Urethane Foam Contractors Association
Web Sling Association

Mr. **Torres**. Thank you, Mr. Ures, for an excellent statement, one that will be very useful to this committee in understanding and making arguments against the President's proposal to abolish the SBA.

I was especially taken by the statistic that you mentioned, and perhaps you might repeat that. Did you say that for every $1 of SBA financing, it leverages how many——

Mr. **Ures**. $7.

We're talking about the compounding effect, as I guess we go back to basic economics. It's been a long time for me; but we're talking about these loans. You're talking about creating additional employees; you're talking about additional sales; sales create employees for other businesses; and it's a snowballing effect.

We have a source for that, I can provide you, relative to that particular comment.

Mr. **Torres**. Your statement also includes a letter that I've just looked at, a letter from a Mr. Sheldon Kasower, whose company manufactures bicycles.

Mr. **Ures**. Yes, sir.

Mr. **Torres**. His company was about to go out of business when you and the bank put together a package that included SBA financing. The borrower, in this case, the son of a Russian immigrant, concludes his letter with a quotation of his father upon learning that his son had received the loan money—and I'd like to read that into the record; I think it tells a lot. May I quote from the letter:

> He looked down at the cashier's check lying on our kitchen table. He looked at it for a full 10 minutes without saying a word.
>
> He looked up at me, tears rolling down his aged, seamed face, and in that moment I saw the light of understanding as he whispered barely loud enough for me to hear "Only in America, only in America."

And it's signed by Sheldon. I think that's a beautiful letter. I'm going to take the chairman's prerogative to include it in the record, because I think it really talks about what SBA is all about.

Thank you.

Mr. **Ures**. Thank you.

Mr. **Torres**. Well, we'd like to hear from Mr. Jack Scheer.

Mr. Scheer, would you please give us your testimony?

TESTIMONY OF JACK SCHEER, PRESIDENT, BURBANK PLATING CO., PACOIMA, CA

Mr. **Scheer**. Congressman Torres and distinguished committee members, I am Jack Scheer, the president of Burbank Plating Service Corp., a California corporation. My purpose here today is to hopefully convince you of the importance and effectiveness of the SBA program as it directly relates to our corporation, employment, local economic stability and environmental protection.

My partner and I purchased Burbank Plating Service in 1965 with our own funds. The partnership initially employed four people in a rented, 4,000-square foot building with annual sales at the purchase date of $70,000.

In 1971, after the business had gone through two significant expansion periods, we required capital to purchase and install our second automated production line. Our bank, after evaluating our loan application for new equipment financing, denied our request for funds. We were referred to American Pacific State Bank of Sun Valley, CA, and applied for an equipment loan through their SBA department. At that date, we employed 20 people in a rented 8,000-square foot facility, and our annual sales were approximately $280,000. Our annual sales, 6 years later, had grown to $700,000, and we employed 25 people. Our plant was then operating at maximum capacity 24 hours per day, 6 days per week.

In 1977, we requested a new $400,000 SBA loan to purchase new equipment that would double our production capabilities. During this time, Congress passed the Clean Water Act—Public Law 92-500—and entrusted the Environmental Protection Agency to formulate regulations for our industry. After evaluating our existing facility, we determined that we could not meet these new regulations since our existing equipment was not designed for pollution abatement, and there was not enough room within our facility to install water purification equipment. This new $400,000 loan was approved in 1978 and enabled us to purchase and install new production and water treatment equipment. We are presently using this equipment in a 20,000-square foot facility. We employ 29 people, and our annual sales are in excess of $1.5 million.

Over the past 20 years, the majority of our employees have been ethnic minorities. Presently, 65 percent of our employees are from minority ranks. Our plant is within an industrial complex that is surrounded by a minority residential area. The employment that we have provided has been very stable. All the jobs that we offer are full time, minimum of 40 hours per week, and we are proud of the fact that during the last 20 years we have only had to lay off a total of 3 people due to changing economic conditions.

I mentioned earlier the environmental regulations that have been mandated during the last 10 years. These regulations have made a major impact on our industry. If we had not upgraded our equipment in 1979, the EPA and their pressures on local agencies to enforce the new regulations would have ultimately forced us to close our business. The SBA program has been a major factor in enabling us to comply with these environmental regulations.

I truly believe that small business plays a major role in the economic well-being of our Nation. During the last decade, small business has created the majority of new jobs, new services, and new products. The SBA program that American Pacific State Bank has involved us in has greatly enhanced our growth and success. We also believe that others have benefited from the program. Our community, city, and State have directly or indirectly seen the effects of the program through employment growth, tax revenues, domestic production capability, and the local availability of products and services.

In summary, I would like to state that I am a firm believer in the benefits of the SBA's 7(a) Guaranty Program. Based on our own experiences, the Federal budget would never be detrimentally affected by our loan. Our loan is backed by personal guarantees, residential and industrial real estate mortgages, and equipment mortgages. When a conservative packaging and lending organization funds an SBA loan of the 7(a) guaranty type, there can only be positive long-term effects for our Nation.

Mr. TORRES. Thank you, Mr. Scheer.

Now we'll hear the testimony of Mr. Miller, the president of Pacific Rents.

Sir, proceed.

TESTIMONY OF LEON B. MILLER, PRESIDENT, PACIFIC RENTS, LOS ANGELES, CA

Mr. MILLER. Mr. Chairman, my name is Leon B. Miller, president of Pacific Rents.

Pacific Rents is a 21-year-old family-owned independent durable medical equipment company. We rent and sell medical equipment and oxygen to the homebound patient.

I started Pacific Rents in 1964 in San Gabriel, CA, with one truck and one delivery person. We have grown to a six-location company located in Los Angeles, Anaheim, Wilmington, Panorama City, San Diego, and Riverside.

We employ 62 people who are highly skilled in operating our type of business. We have a cross section of minority personnel who have been trained by us to be gainfully employed.

Our revenue is derived from third party payers such as Medicare, Medi-Cal, insurance companies, and private patients.

In 1977, we made application for an SBA-guaranteed loan of $150,000 to be used for our expansion of offices and the need to purchase more rental equipment. It was accepted through American Pacific State Bank, and this gave us the shot in the arm to aggressively place ourselves in a growth pattern in the marketplace. With the low interest rate and long-term payoff, we were able to survive the slow pay from Medicare and Medi-Cal and continue to grow.

I want to say that if it was not for this type of long-term financing, because it was the only type of loan I could get at the time, when we needed it most, we would not have grown to where we are today.

Again, in 1979, we found a need to increase our SBA-guaranteed loan. Because of our excellent record of payment at the bank and being able to service our accounts that we acquired and show a profit, we asked for and received an additional $350,000. We paid off the balance of our old loan and continued business as usual, making a profit and paying our taxes.

Since receiving our first SBA-guaranteed loan in 1977, our sales increased from $1.3 million to $2 million. We had 26 employees in 1977 and increased to 36 employees in 1979. Because of the second SBA-guaranteed loan in 1979, our sales increased to $4 million today with 62 employees.

In my estimation, the Small Business Administration is like operating any other business. If you make good business decisions, and, in your case, good loans to businesses that are more likely to survive than not, you can continue to operate. For this reason, the SBA should not be abolished but cleaned up like many other departments of our Government and placed on a solid footing so that you get a return on your investment, which really are our tax dollars invested. It makes only good sense that you cannot run a business on deficit spending and expect the SBA or anyone else to survive.

In summary, because of our SBA-guaranteed loans that were made to us, I was able to grow and compete in the health care market and become a leader in our industry. Because of the SBA-guaranteed loans, I'm able to employ 62 persons in a $4 million business.

To digress just a moment, regarding the health care industry and the things that have come down from HCFA on the Rent/Lease-Purchase Program, which is going to limit and become very difficult for the recipients of this program, with the limited amount of 5 months' rental of a piece of equipment and purchasing an item of $120 or less, it's going to limit our business, but I believe because of having an SBA available that we'd be able to continue in the marketplace.

I thank Frank Ures and American Pacific State Bank for the loan that we have made and the SBA that has, again, given us that back-up to continue in our difficult industry.

Thank you.

[Mr. Miller submitted the booklet, Homecare Rental/Sales, which is in committee files.]

Mr. TORRES. Thank you, Mr. Miller, for your testimony this morning here.

Representative Hayes, I'm going to turn the microphone over to you. You may have some questions for our three witnesses.

Mr. HAYES. Thank you, Mr. Chairman.

I must say that we have benefited by what is some really good, well-prepared testimony from all three of the witnesses.

I was just wondering, though—Mr. Ures, you said you are partners with the SBA, which is all right with me. Your bank is your institution.

You indicated in your statement, "We currently have a portfolio of $23 million in SBA-guaranteed loans." What percentage is that of your total business?

Mr. URES. Presently, our loans are about $100 million, so that's presently about 25 percent.

Mr. HAYES. Almost 25 percent.

Mr. URES. It's our policy to try to keep that percentage at about 37 percent. That's the bank's policy. So, it's presently well under that. So, we have considerable room to grow.

Mr. HAYES. I don't think you'd get to the point where survival would be a question, but it would be a real hard blow to your bank if the SBA and its guaranteed loan provision were to go out of business. Isn't that right?

Mr. URES. Yes; it would be.

Mr. HAYES. You only operate in the southern California area?

Mr. URES. Yes; just in the San Fernando Valley.

Mr. HAYES. I thought maybe you could stretch across the Rockies.

Mr. URES. To Chicago?

Mr. HAYES. That's right.

All right. That's it. I don't have anything else, Mr. Chairman.

Mr. TORRES. Let me raise one other question, and I think you spoke to it, Mr. Ures, but I'd like some expansion on it.

Opponents of the SBA argue that the agency is especially costly to the Government because of the large number of defaulted loans. We hear this over and over.

Another common argument against the SBA is that the agency is a drag on the economy because it interferes in the private capital market.

What can you say about this?

Mr. **Ures**. Well, as far as the delinquency factor, I'm not aware of the direct program. I'm not familiar with the statistics on that. I was speaking of the guaranty program. That's the program with which, of course we all know, the banks make the loans and no money is derived from the Federal Government, and the default rate on those loans is quite low. Especially, you talked about other major companies that are conventionally financed going into default. Well, the 5 percent, I think, is quite respectable.

Mr. **Torres**. Well, the accusation that it's a drag on the economy because it interferes in the private capital market.

Mr. **Ures**. Well, I read that statement about 50 times, and I never fully understood it, but when you're a small businessman and you want to survive or you're going to try to grow, you're not a public corporation, you can't go to the public for more capital, there's no place to go; and to say it's a drag on the economy, to me, has got to be one of the lowest statements I've read.

I look at these people who have testified today, and if it's been a drag on their business, or if they haven't helped southern California contribute to the payroll and to the well-being of the area, well, then, if that's the definition of a drag on the economy, I don't understand it.

I don't see how that statement—to me, that statement is irresponsible, at least in southern California.

Mr. **Torres**. Thank you, sir.

I'd like to thank all three of you for being here this morning and providing excellent testimony to our committee, and I would now excuse you. Thank you.

Our next witness, if I may invite him to sit in what may have been his former seat—we don't know—the Honorable Tom Bradley, the mayor of the city of Los Angeles.

Mayor Bradley, I want to thank you very much for availing City Hall for the use of the Committee on Small Business of the House of Representatives. I'm especially grateful to your Office of Small Business here at City Hall, Mr. Marshall and Mr. Juarez, for providing excellent logistics for us, and I would certainly invite you to provide testimony for us this morning on the kind of hearing we're conducting in your city.

Please proceed.

TESTIMONY OF HON. TOM BRADLEY, MAYOR, CITY OF LOS ANGELES, CA

Mr. **Bradley**. Mr. Chairman, thank you very much, and may I extend to you—though you hardly need it—a welcome to the city of Los Angeles for this hearing. I think that the inquiries that you're undertaking are critical to the economic health of this Nation.

We believe that the Small Business Administration and its various programs are truly vital to what happens in this Nation in terms of creation of jobs and entrepreneurial opportunities for small and especially minority businesses.

We've made considerable progress, but just at the point where we are about to really make a breakthrough, to give opportunities heretofore never even dreamed of by many of the people who are in this category, the Office of Management and Budget now wants to cut the entire program.

I just think that it's so counterproductive that I'm astonished the recommendation was even made, and we look to you, the Members of the Congress, to preserve for us and for this Nation one of the truly vital programs.

The President himself pointed out in his message dealing with Small Business Week—and I quote:

> To revitalize the Nation, we must stimulate small business growth and opportunity. Small businesses account for over 60 percent of our jobs, half of our business output, and at least half of the innovations of the American economy that keep American industry strong. The imagination, skills, and willingness of small businessmen and women to take necessary risks symbolize the free foundation of the American economy and must be encouraged.

I agreed with the President when he said it; I agree as strongly today with that statement and with that principle; and it is for that reason that I'm pleased to come this morning and add my words to those that I'm sure you've been hearing already.

Let me relate, if I may, these issues and the principles to the city of Los Angeles.

We have a great entrepreneurial spirit here in this city, and I'm pleased that, through the assistance of the Federal Government, we were able to establish the Office of Small Business Assistance, which has been of tremendous benefit to the small businesses, minority business, female-operated and -owned business in this community in a fashion that was unheard of 10 years ago, 12 years ago.

The small business community in Los Angeles has certainly contributed and shared in the growth of this city and its economy. Last year alone, 300,000 small businesses in Los Angeles created 80 percent of the new jobs and represented better than 50 percent of the area's business receipts.

These figures indicate that the small business community indeed forms the economic backbone of the Los Angeles area and is essential to its existence.

I might add that I am simply going to excerpt from my seven pages of formal testimony, and you will have the documents for your perusal at your leisure.

Mr. TORRES. We will be happy to enter your complete statement into the record, and it will be so printed.

Mr. BRADLEY. Thank you.

We in Los Angeles bear witness to the critical and vital role that the Small Business Administration and Minority Business Development Agency's progress have played in underwriting the continued development of our city's small and disadvantaged business people.

Let me deal for a moment for the impact of SBA loans and the numbers. SBA loans, both direct and guaranteed, in 1983, totaled

634 valued at $121.9 million. In 1984, there were 658 loans made with a loan value of $135.9 million.

The local development companies—there are 532 such companies in the United States—these companies have, since the program began 3 years ago, made 3,500 loans with a dollar value of $704 million.

An example of the success of the programs can be seen in the Los Angeles area where, in the last 2 years, a total of 40 loans have been made under this program and more than 2,500 jobs have either been created or have been saved for this community at a cost of $4,775 per job.

The actual loans are being repaid with interest, and those 2,500 jobs are generating income tax and providing productive income for many family units.

The identical process is being repeated by the program in every State of this Nation. In the Los Angeles district, the Management Assistance Division cosponsored 372 training activities during the fiscal year of 1984, and those were attended by 16,000 persons.

Something that I think is overlooked in the simplistic approach taken by Mr. Stockman when he downplays the importance of this program—it's not just creating the jobs or the businesses or giving them assistance, but the training program, the one to which I've just referred, is a hidden part of this program that is critical to success.

One of the problems that all of us are aware of is the fact that oftentimes small business, inexperienced people, get into trouble because of lack of experience or knowledge or expertise. Training is essential to make their investments produce for them and to make their companies successful.

So, I would hope that these kinds of things would be pointed out to Mr. Stockman and to others who seek to downplay the importance of this vital program. I am shocked that OMB's shortsighted effort to abolish SBA would come at a time when we're really making good progress.

Their effort would eliminate the only agency in the executive branch whose sole mission is to promote and assist the Nation's 14 million small businesses, which account for 97 percent of all businesses and annually create over 80 percent of all net new jobs in 1981 and 1982. One hundred percent of all net new jobs were created by small businesses, according to the President's most recent report on the state of small business.

It does not take into account the significance of small business' impact on the economy as a whole, the stimulus that SBA programs provide to small businesses and their growth and stability, and the essential advocacy role of SBA on behalf of the Nation's small businesses.

It would abolish the solid core of programs carefully crafted and legislated by Congress specifically to assist small businesses in obtaining long-term financing and management and technical assistance.

It would reverse, for example, a long-established congressional policy of providing timely Federal assistance to communities trying to rebuild from the devastation caused by natural disasters.

We're convinced, as are our leading corporate citizens, that true economic success and continued growth for Los Angeles can only be achieved and sustained by the incorporation of small and disadvantaged business people into the mainstream of our economy.

We see our success in bringing the small and disadvantaged business persons into the mainstream of our economy here in this community, and certainly in other California cities, as vital to the natural progression and growth of this Nation.

It is my hope that this committee can persuade your colleagues in the House of Representatives that, rather than abandon the people who need this help and the program which provides it, that you will instead strengthen SBA and its various programs.

I thank you for the opportunity to make this testimony before you.

[Mayor Bradley's prepared statement follows:]

Prepared Statement of Hon. Tom Bradley, Mayor, City of Los Angeles, CA

Mr. Chairman, and Honorable Committee Members:

On behalf of the people of Los Angeles, I would like to welcome you to our city. We consider your mission to evaluate the efficacy of the Small Business Administration and it's respective programs important and vital. It is our sincere hope however that upon completion of your hearings you will concur with the City's administration, that these programs are essential in further strengthening the vitality of America's small and minority business community. I would like to set the tone of my remarks this afternoon by sharing with you a few words about the exciting growth of this city, and the significant role the SBA has played in the development of our small and disadvantaged business community.

In his proclamation to the nation in its observance of Small Business Week, President Reagan, stated that:

> "To revitalize the Nation, we must stimulate small business growth and opportunity. Small business accounts for over 60 per cent of our jobs, half of our business output and at least half the innovations of the American economy that keep American Industry strong. The imagination, skills and willingness of small businessmen and women to take necessary risks, symbolize the free foundation of the American economy and must be encourages.

> I urge all Americans who own or work in a small business to continue their resourcefulness and success, for these efforts contribute so much to the entrepeneurial spirit which made this nation great. It is with justifiable pride that the American small businessman can point to himself as the backbone of our nation."

The City of Los Angeles can clearly relate to this statement and certainly to that of the "entrepeneurial spirit". As we review our City's history, we find that Los Angeles has in the past two hundred years, emerged from humble origins to that of one of the world's most important centers of commerce, industry and international trade that encompasses a metropolitan area of five counties and boasts a gross regional product of over $130 billion dollars a year -- a gross regional product which is exceeded only by the gross national product of twelve nations in the world.

The Small Business Community in Los Angeles has certainly contributed and shared in the growth. Last year alone 300,000 small businesses in the Los Angeles District of the Small Business Administration created 80% of new jobs and represented better than 50% of the areas business receipts. These figures indicate that the small business community indeed forms the economic "backbone" of Los Angeles and is essential to its existence.

We in Los Angeles can unequivocally bear witness to the critical and vital role that the Small Business Administration and Minority Business Development Agency's programs have played in underwriting the continued development of our City's small and disadvantaged business people.

As we review the most recent record of the SBA's program accomplishments here in Los Angeles over the course of the past two fiscal years (1983 and 1984), I believe that we should clearly be convinced of the vitality and importance of this agency.

> SBA loans -- both direct and guaranteed in 1983 totalled 634 valued at $121.9 million; in 1984, 658 loans were made with a loan value of $135.9 million;
>
> LOCAL DEVELOPMENT COMPANIES: There are 532 Local Development Companies in the United States. These companies have, since the program began three years ago (1982), made 3500 loans with a dollar value of $704 million.
>
> An example of th success in the program can be seen in Los Angeles where in the last two years a total of 40 loans have been made in this program and more than 2500 jobs have either been created or saved in the community at a cost of $4,775 per job. The actual loans are being repaid with interest and those 2500 jobs are generating income tax and providing a productive income for many fanily units. The identical process is being repeated by the program in every state in the United States.

REMARKS continued ...
Page 4

MANAGEMENT ASSISTANCE: In the Los Angeles District, the Management Assistance Division co-sponsored 372 training activities during FY 1984 that were attended by 16,506 persons. The District also provided one-on-one counseling to 5,881 clients with 5,557 of the counselings handled through the SCORE/ACE Program. A total of 247 businesses received assistance from SBI Schools in the Los Angeles District and 224 of the cases were in-dept cases, cases where 12 or more hours of counseling was provided.

There are 235 SCORE/ACE volunteers in the Los Angeles District's seven chapters. The seven chapters are located in Orange County, Colton, downtown Los Angeles, Santa Maria, Santa Barbara, Pomona and Ventura. There are 10,000 SCORE and ACE members nationally who provide 1.3 million counseling sessions free to small business owners and operators. There are 408 SCORE chapters in the Unites States.

MINORITY SMALL BUSINESS and 8(a) CONTRACT PROGRAM: In the Los Angeles District during FY 1984 a total of 885 8(a) contracts and contract modifications were awarded for a total of $248,062,663 compared to 785 contracts and modifications for $146,997,157 in Fiscal Year 1983. In Region IX of the Regional awards totaled $447 million.

I thus join with Senator Lowell Weiker, Chairman of the Senate's Committee on Small Business in expressing my concerns in the proposed changes by the Office of the Management and Budget. Senator Weiker has stated, and I quote:

"OMB's shortsighted effort to abolish SBA makes no sense for the following reasons:

> It would eliminate the only agency in the Executive Branch whose sole mission is to promote and assist the nations's 14 million small businesses, which accont for 97 percent of all businesses and annually create over 80 percent of all net, new jobs (in 1981 and 1982, 100 percent of all net, new jobs were created by small business according to the President's most recent Report on the State of Small Business);
>
> It does not take into account the significance of small businesses' impact on the economy as a whole, the stimulus that SBA programs provide to small business growth and stability and the essential advocacy role of SBA on behalf of the nations's small businesses;
>
> It would abolish a solid core of programs carefully crafted and legislated by Congress specifically to assist small businesses in obtaining long-term financing and management and technical assistance; and
>
> It would reverse a long established Congressional policy of providing timely federal assistance to communities trying to rebuild form the devastation caused by natural disaster...."

We are convinced as are our leading corporate citizens, that true economic success and continued growth of Los Angeles can only be achieved and sustained by the incorporation of small and disadvantaged business people into the mainstream of our City's economy; we also understand and appreciate that the realization of this goal will be encumbent on our continued partnership with Congress and the federal government.

We see our success in bringing the small and disadvantaged business person minority enterprise into the mainstream of our economy here in Los Angeles and certainly in other California cities, who are also being aided by such programs; as the most convincing testimony to support the proposition that government can play a constructive and edifying role in assisting minority enterprise become a viable force in our national economy.

As President Reagan and the Congress, seek new formulas to curb inflation, stimulate growth and restore confidence in our economy, there will be the temptation to overlook or perhaps even disturb those federal programs whose efficacy and success have not been fully understood or apreciated. In our rush to find new solutions, we must exercise due caution in disturbing those formula's for success which have proved sound and productive.

The SBA's programs have proven to be such a formula. Although there are areas that could be perfected, we must not alter the character and nature of the program and render it useless.

I would submit to you that national recovery does require sacrifice as we find it necessary to re-examine our fiscal priorities. Certainly our most pressing concern will continue to be effective utilization of resources, job creation and stimulating investment in business and industry.

Our SBA programs are effectively investing in the future of our small and disadvantaged businesses which are amongst those vital resources yet to be fully discovered, developed or utilized in America. This is a vital sector of our economy when utilized to its maximum potential will create millions of new jobs, generate new revenues and revitalize the areas of this nation which will have not been able to heal or rehabilitate.

It is thus my fervent hope that you listen closely to the "entrepreneurial spirit of America", and that we dedicate our selves to the cause of preserving those successful programs such as the SBA which are truly underwriting the economic growth and vitality of our nation.

THANK YOU!

##########################

Mr. **Torres**. Well, thank you very much, Mayor Tom Bradley.

I know that I speak for the committee, and my colleague will have some words to say about that, but I want to personally appreciate your presence here today. It speaks to the commitment and the vision that you have for this city, for the vision that you provided in the establishment of a small business assistance program here at city hall.

We will be traveling to other cities in the United States. We've come from Fresno, and we're having another colleague handle a hearing in Portland. Our chairman, Mr. Parren Mitchell, will travel to Houston, Philadelphia, and Chicago to take additional testimony in those cities.

But, indeed, Mr. Hayes and I are certainly pleased that you could be here today, that we could hear your eloquent statement. It's reassuring to the committee. We will go back to Washington and convey this to our colleagues.

Thank you very much.

Mr. **Hayes**. I just want to echo and say ditto to much of what you've said, Mr. Chairman.

We do share some things in common, I think. You represent as the chief executive what is considered to be the second largest city in the United States.

Mr. **Bradley**. It is. It is the second largest.

Mr. **Hayes**. Well, I just want to say that we have problems so similar in Chicago, and I know you've conversed on occasion with the mayor of our city.

Small business' survival is so important to our economy. I do hope that we can get in a position where we begin to at least get the Federal Government to be more responsive to the needs of people, which I think is very necessary.

I don't know what the situation is in the Los Angeles area, but the rosy picture that's often painted by this administration of things getting so much better certainly has not reached my district.

Unemployment is really high, and certainly among our youth in the First District of Chicago, it must run somewhere between 50 and 60 percent, particularly our black youth.

Small business is one of the providers of those kinds of jobs, working in conjunction with Government. Without that source of employment, the future is going to be very bleak for our urban centers.

You mentioned our trying to influence Mr. Stockman as Members of Congress. I have some doubts about our power of persuasion over the direction in which that young man is going or where he indicates he wants to go. The emphasis seems to be on bigness, consolidation of business, monopolization of business, at the expense of small business and at the expense of jobs.

So we certainly need to work closely together, those of us who understand what the problem is and are prepared to do something about it, but in the first instance I think we have to all fight and make our position known for the survival of this entity of Government, so that small business can survive and the bankruptcies which are accelerating in the chapter 11's may be cut down. I think they can only do it to the extent that the Federal Government is willing to help.

I want to thank you very much, Mr. Chairman.

Mr. TORRES. Thank you, Representative Hayes.

Mayor, thank you very much for taking the time to be with us today. You are now excused.

Mr. BRADLEY. Thank you, Mr. Chairman.

Mr. TORRES. Thank you, sir.

Mr. BRADLEY. Thank you, Mr. Hayes.

Mr. TORRES. We are proceeding right on schedule, and to not deviate from that schedule, I would like to now invite to the witness chairs up front here Barbara Judge Pritchett, the vice president of Central Bank of Glendale, and two clients—Mr. DeMattos, the president of Matthews Studio Equipment, and Dr. Jerald Robinson.

Would these witnesses please join us? Good morning.

We're really very informal about this. We'd ask you to be comfortable and concise and perhaps limit your statements to about 10 minutes, and then, conceivably, in the course of your statements, we may interrupt. However, we'd like to wait until you are all finished, and then we both may have questions of you.

Would you proceed, Ma'am?

TESTIMONY OF BARBARA JUDGE PRITCHETT, VICE PRESIDENT, CENTRAL BANK OF GLENDALE, GLENDALE, CA

Ms. PRITCHETT. Thank you, Chairman Torres, Representative Hayes, Tom; it's good to see you. Thank you for asking us here today.

I'd like to take this opportunity to comment on the administration's proposal to eliminate the Small Business Administration as a part of a plan to reduce the Federal deficit.

Central Bank of Glendale strongly supports the SBA Guaranteed Loan Program and supports the position that the SBA must maintain its status as an autonomous agency. Central Bank of Glendale believes that the criticism of the SBA Loan Guaranty Program is uninformed, inaccurate, and unjustified, considering its importance as a source of long-term capital for small business.

Generally speaking, the small business owner is not looking to the Government for a handout, a grant, or subsidy. What he does desperately need is a Government program that makes it possible to finance their business needs on terms that are reasonable, competitive, and not out of line with the terms that are available to big business owners. The SBA 7(a) Guaranty Program is such a program which provides lenders a vehicle to offer long-term financing to 7 years or more to the small- and medium-sized business community. In fact, approximately 30 to 40 percent of the dollar amount of banks' long-term financing to small businesses may carry an SBA guarantee. Without guarantees by the SBA, long-term capital is simply not available to many good quality, creditworthy small businesses.

With the partnership of lenders and the SBA, we are providing long-term financing to good quality, creditworthy companies, financing that is simply not available conventionally. Without the guarantee of the SBA, thousands of small businesses would go without the financing necessary to enable them to expand, create new jobs, and generate more tax revenue to the Federal Government.

In attempting to measure the impact of the SBA Loan Program upon small business, it is important to point out the major purpose of SBA guranteed loans is to give small business access to long-term financing. It is the SBA Loan Guaranty Program that has made possible what long-term financing does exist for the small businesses.

There are several other factors that we think the committee should consider in evaluating the SBA Loan Guaranty Program.

No. 1, the administration points to misleading statistics in its contention that default rates of the Loan Guaranty Program are unacceptably high. SBA's actual loss rate—that's net losses divided by loan disbursements—on the 7(a) guaranteed loans through the end of 1983 was less than 5 percent.

[Figures on SBA loan statistics follow:]

SBA LOAN STATISTICS

	Fiscal year 1983		Fiscal year 1984		
	No. loans	Loan dollars	No. loans	Loan dollars	Percent inc.
Nationally	19,192	2,549,000,000	21,272	2,999,000,000	16
California	1,720	298,237,000	2,372	438,554,000	47
Fresno district [1]	143	22,620,000	334	53,968,000	139
Los Angeles [2]			849	156,000,000	

[1] The Fresno District Office of SBA serves 15 counties in Central California. During fiscal year 1984, the Fresno District Office approved 334 loans to small businesses totaling $53,968,000.00; equating to a 139-percent increase resulted directly from an increase in the demand by small business for increased financial assistance. This positive trend continues for the first 4 months of fiscal year 1985 (October 1984–January 1985).

[2] 1983 figures not available.

In these 15 counties a total of 3,952 jobs were created/retained due to small business receiving SBA guaranteed loans. Thus, one job was created/retained for every $13,600 in SBA guaranteed loans in the Fresno District Office. As our loss rate on guaranteed loans is slightly less than 5 percent the actual cost to the taxpayer is approximately $683.

It should be noted that the Department of Defense has stated that 35,000 jobs are created for each $1 billion in expenditures, equating to approximately $28,500 per job. These are direct outlays by the taxpayers in expenditures. Also, studies by the SBA Office of Advocacy have indicated that small business is typically the first and major employer of younger, older, women, and minorities in this country.

No. 2, it has been estimated that for every $1 billion of SBA guaranteed loans, approximately 100,000 jobs are created or retained. As a result, the Government realizes a significant return on its investment through increased business and personal taxes as well as its savings on welfare compensation payments. In fact, it has been estimated that each dollar of SBA financing generates $7 of revenue to local and Federal governments. In effect, the SBA Loan Program returns money to the Government after covering the cost of the administration and losses.

No. 3, some have proposed that the guarantee be reduced from the present 90 percent to 75 percent. If this occurs, most non-bank lenders and many smaller banks would no longer be able to afford to participate in the program, considerably reducing the access of long-term capital by small businesses.

The simple but dynamic facts are that with $1 million of lenders' capital and a 90-percent SBA guarantee, $10 million of loan funds are available. However, with that same $1 million and 75 percent guarantee, only $4 million is available, a decrease of 60 percent. Under such circumstances, many lenders presently active in the program would be forced out, enabling even fewer small businesses to be helped.

In summary, it is clear that SBA's Loan Guaranty Program does fill a void in the financial marketplace and, properly administered, results in a positive impact on the economy, generates revenue in excess of costs for the Federal Government, and is the perfect partnership of the private sector and public sector working together to create jobs.

On behalf of lenders active in the Loan Guaranty Program of the SBA throughout the country, Central Bank of Glendale adamantly supports the retention of the SBA as an independent agency and the retention of the SBA Loan Guaranty Program as outlined in your proposed legislation S. 408.

Thank you.

[Additional material submitted by Ms. Pritchett follows:]

L & R

WESTERN DIESEL, INC.
MACHINE SHOP SERVICE
5141 E. Telegraph Road
Los Angeles, California 90022
(213) 268-3141

FOR PRESENTATION

BEFORE THE
SUBCOMMITTEE ON SBA AND SBIC
AUTHORITY, MINORITY ENTERPRISE AND
GENERAL SMALL BUSINESS PROBLEMS
OF THE
COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES

LOS ANGELES, CALIFORNIA
MARCH 23, 1985

March 21, 1985

Central Bank of Glendale
411 North Central Avenue
Glendale, CA 91203

Attn: Barbara Judge
SBA Department

Dear Ms. Judge:

We bought the business approximately 5 years ago. The business had a low working capital and was not doing well. We worked hard for the first few years and showed a slow but steady growth in the business, but we were still having problems with getting enough working capital.

We also needed to upgrade the machinery in the shop in order to meet the demands of the market, our customers and to be more self-sufficient.

The SBA Loan afforded us the opportunity to buy new equipment and hire new employees and take in more business. The SBA Loan carried us through our difficult period. By getting this loan, we were able to help the economy by creating these new jobs, buying the new equipment and generating new business. None of this would have been possible without the SBA Loan.

If these SBA Loans were not made available to the small business man, where would we go for the financial help needed to get his business on its feet.

Without the SBA Loan, we would not be where we are today!

Very truly yours,

HARRY H. NADJARIAN
President

WESTERN DIESEL, INC.

HHN/ad

Mr. TORRES. Thank you very much, Ms. Pritchett.

We'd now like to hear from the next gentleman.

TESTIMONY OF GREGORY MOISEEFF, HOUSE COUNSEL, MATTHEWS STUDIO EQUIPMENT, BURBANK, CA

Mr. MOISEEFF. I'd like to make some corrections, if I might, preliminarily.

Mr. TORRES. On the previous testimony or on your own?

Mr. MOISEEFF. On the submittal of Matthews Studio Equipment.

Mr. TORRES. All right, sir.

Mr. MOISEEFF. We addressed our letter to the wrong committee, I'm sorry. Our information, when it was typed up, was in error. We thought we were dealing with a Senate committee, and we apologize for the error.

Second, Mr. DeMattos was unable to be here today, and my name is Gregory Moiseeff, M-o-i-s-e-e-f-f, and my capacity is house counsel to Matthews Studio Equipment.

Rather than paraphrase the contents of the letter which was prepared by a management committee on short notice, and because I'm a last-minute substitute and don't have much in the way of supporting information with me, because I was unable to stop at the office on the way down here this morning, I'd like to make some extemporaneous comments, if I might, from this point of view.

Mr. DeMattos, who is not here today, is a young man, 33 years old, who came to America at approximately age 17½ and soon found himself penniless because the program under which he was admitted to America to study did not have any more funds, for reasons I cannot relate, and soon found himself, by the necessities of the circumstance, a student of the American system of enterprise and survival, and did remarkably well.

Approximately 1 year after he had gained admission to America as a student, he met the founder of Matthews Study Equipment, who himself was a man of modest means, who had been employed in Hollywood in the entertainment industry as a person whose occupation is known as grip—g-r-i-p.

The name connotes precisely what it means. A grip is a person who can put his hand around an item of equipment that the studios use and transport it to the proper spot where it's required, be it a light, a light stand, a camera mount, a ladder, a backdrop, or whatever.

The grips created an entire new industry by coming into being in the first place with the growth of the entertainment industry in California, in that, in order to be employed, somebody has to make the equipment which the grip can then put his hand around and take from place to place at the director's call.

Most of this equipment is tubular in nature. It's a tube not much different than this mike stand and takes various shapes and sizes and can hold anywhere from a small light of this nature required for a particular set to a very heavyweight, 20,000 kilowatt light.

Without all of the grip equipment, the studios would not be able to exist, and production companys could not make the films which we are all used to seeing both in the theaters and on television.

The founder of this company had his own capital—very minimal. He started the company and immediately needed personnel to give some fruition to his ideas. He hired Mr. DeMattos and one more gentleman, Ed Phillips.

For 5 years, they experimented with the ideas and produced sales of $200,000 in this field of grip equipment. Then there was a parting of philosophies, if you will, between the three gentlemen, and Mr. DeMattos and Mr. Phillips bought Mr. Isiah out and became the sole owners of the company.

In order to effect this, since they had very little means at that time, they had to fall back on a previous, smallish SBA loan that Mr. Isiah had procured from Security Pacific National Bank, and in order to fund the purchase from Mr. Isiah, they had to turn to a client of mine who gave them the benefit of a personal guarantee—no more than exposing himself as a guarantor of a promissory note that they gave him for the purchase price of his shares.

At that time, I counseled my client against signing such a document, because I didn't know very much about the company or its future. The men were young, and it looked like a tremendous exposure on the part of my client. But he wanted to do this because he had a gut feeling that these gentlemen were honest, and capable, and dedicated to making a success of themselves.

On my own, to soothe my own nervosity, I started to inquire into this company, and befriended the two young men, and used to visit on occasion, and volunteered counsel as they were growing.

At that time, when they took over the company with about 3 months to go in their fiscal year, the sales were at $200,000. In the next 3 months, putting their ideas to bear, they increased sales by $300,000.

In 1980, the gross sales of this company were at the $2,384,000 level. Along the way, there were a series of refinances, if you will, of the SBA loan that was originally given to this company, because, as their growth pattern proved that they were entitled to more support, they would obtain a higher SBA loan, pay off the previous one, have some working capital, if you will, and go on to improve on their previous ideas.

When I first met them in 1976 or 1977, they employed a total of about 16 people. We now employ 50. The figure seasonally varies somewhat, because in November-December-January, there is a hiatus in the production of television and film, if you will, locally, and, as a result, we do not keep a full staff in the shop unless the inventory requires it.

Two years ago, because of the crunch in the financial industry, I was brought in fulltime with a view to assisting the young men to leave the garage shop era—they had started in a garage basically—and become a more professional company, so that at some point in time, if the need should arise, we could qualify for either a stock issue to the public or other means of interesting investors. The company had not been ready for it before.

We tried in the most professional ways I can think of—because I sat in judgment on the applications and the efforts—to obtain loans from the banking system, and I must tell you that a young person in a young company, with a small client base, as we have—because we're restricted to the entertainment industry—just wastes their time preparing background material or knocking on the door.

We finally found ourselves having to be creative out of desperation, and a stroke of genius hit Mr. DeMattos himself, who said, "You know, when I got my last big SBA loan, it was through the auspices of Barbara Judge"—who is seated on my right, and she was then with American Pacific State Bank, whose president has just testified—"but she had recently changed banks, and I don't know where she is. She knows about the nature of our industry, the nature of our company. Maybe we're wasting our time going anywhere else. Why don't we try to find her?"

We did and, in short order, had an application for the maximum amount—$550,000—which would net us approximately $200,000, which we needed for the following reasons.

In the entire history of this company, engineers had been used periodically as outside counsel, if you will, to perfect some of the ideas that the boys had come up with. They were not engineers. They were not professional manufacturers.

We needed to hire a full-fledged engineer. We needed to hire a full-fledged public relations photographic person to prepare things such as the catalog which we submitted to you. We had to hire a manufacturing supervisor who really knew how to build up inventory and control it. Without funds, we could not do it.

The answers before us were very simple. We were either going to revert back to a primitive garage operation and become nobodies, or maybe even fail, or we were going to become professional, but only if we got the money.

We succeeded in getting the money through the efforts of the Central Bank of Glendale and Barbara Judge, who went to bat for us, and the annual sales figures increased immediately, because in our last fiscal year, 1984, we came within a few dollars of the $5 million magic mark, which we hope to exceed this year substantially.

Along the way, we came up with a new generation of products which will become household names in the industry without question, and some of you gentlemen probably saw some of the products without realizing what you were looking at.

We have gone into the field of electronics. We have developed a head for mounting cameras in such a manner that the camera can be operated by you seated there, and it could be around the corner, and down the hall, and maybe downstairs even, and all you need to do is look at our monitor, and push the right buttons, and you can effect any picture that you wish under any circumstance.

In doing that, we have eliminated a great element of the safety risk to camera people who, until now, could only achieve these things by exposure and peril, if you will, and perhaps the use of cranes, all of which, to some degree or another, are hazardous, because they're all operated on a counterbalance system, and if there is any human error attached, the cameraman is the first to feel the effect, because if he's 30 feet up in the air and the crane is being swung, he's the first man to go, unfortunately.

So aside from that benefit, we have now been able to do the following. If you watched the Rose Bowl game this past January 1, if you watched the Orange Bowl game, at both games our camera head, operated by remote control, was mounted on a goalpost.

If you've watched any basketball on NBC during the past 3 months in the college ranks, you will have seen our camera head mounted behind the basket. All the networks and the commentators always refer to it as their camera. The camera that's on there is theirs; the mounting device which enables them to operate it is ours. Without the funding, we would not have been able to avail ourselves of the engineer who helped us develop this; we wouldn't be here today.

As an observer, I would like to add another comment personal to myself. Why are all the people here today, since we've heard nothing but success stories. They don't need the SBA any more, it sounds to me. In effect, they're here because their conscience does not permit them to sit back and eliminate from the future generation of success stories the opportunities which fell their way because the system was here.

Now, you could ask Mr. DeMattos for the next 30,000 years what he knows about the Government's involvement in this program, and he'll say, "I don't know." He knows it's guaranteed the loan in some fashion. He's not concerned with that element of it. All he knows is that, because the bank had this program available to it, it was able to make the funding which was so vital to our future. Without it, we had no place to go.

Thank you, gentlemen.

[Mr. DeMattos' prepared statement follows. The catalog referred to is in subcommittee files.]

PREPARED STATEMENT OF CARLOS DEMATTOS, CHIEF FINANCIAL OFFICER, MATTHEWS STUDIO EQUIPMENT, INC.

Because the incumbent administration's proposed elimination of the Small Business Administration as a budget cutting measure can no longer affect this company or its future, it would be easy for us not to be concerned about it. However as members of an active entrepreneurial community here in Burbank, we genuinely feel it is incumbent on us to register our protest. We cannot remain unmindful of our own business past.

Without support statistics which are not in our command at this time, we nevertheless accept the conclusions of most of our colleagues that it is becoming harder and harder for a small business to survive. Entrepreneurship and credit are so interrelated that without credit, the entrepreneur must either forego starting up his proposed venture, or must permit his existing venture to fail, merge or be acquired. As a result, the trend is for the surviving businesses to become larger and larger until they can no longer be classified as "small". The climate appears to favor the disappearance of the little businessman.

In our humble judgment, only a person who has never started a venture of his own with his own capital, and had no occasion to face the daily cash flow problems and travails of a small business, could rise to applaud the elimination of the Small Business Administration. It has been the Gibraltar of the average man with ideas and no place to go to to obtain his start up capital. Eliminate it and the hope and the bastion vanish.

The average loan officer at any bank does not have the luxury of the time required to assess a business in depth. A small businessman is unlikely to get sound financial or business advice from his bank branch because many of the officers there are not equipped to give it. By virtue of the very nature of its structure the SBA loan guanantee requires the professionals at the bank who process the application to become thoroughly familiar with the applicant and its business.

Eliminate the SBA department of his local bank, and the small businessman loses the benefit of a sound independent advisor, not just a source of funds

In the many years we have traveled through the banking system as a borrower, we have never found a better bank staff as willing to give of their professional time to assist and counsel us as the members of the SBA Department of the Central Bank of Glendale. Our success is interrelated with theirs. Their experience merged with ours. Even should the worst occur and the SBA be disbanded, our relationship with this bank and its staff will not likely be disrupted as our bond is already established. But what about those of our business community who have not yet had the benefits of this SBA department's services and advice? Where will they go for assistance? It is for them that we fear. It is on their behalf that we address you.

On the chance that our story might be useful to you in presenting opposition to the winding up and dissolution of the SBA we offer a synopsis of our business history.

This corporation was founded in January 1970 by a sole proprietor who had been a grip and had ideas for supplying the entertainment industry with more customized products than were available through existing sources. Upon incorporation he immediately hired my partner Ed Phillips and I to help him start up. I was to run the office and the finances, and Ed was to apply himself to manufacturing, design and sales.

Grip equipment is used in the film and televison industries to mount cameras, camera accessories, diffusion elements, backdrops, lights, lighting accessories, and other items the production staff deems necessary to obtain the particular photographic product they envision as their goal. Mobile platforms, dollies, cranes and various heavier type equipment are also included in this category. To a lesser extent, even the still photography industry employs these grip items.

In the first 5 years we experimented a lot and grew by the process of trial and error. The original owner's opinions conflicted with Ed and I's and there was a rift which could only be resolved, in our opinion, by Ed and I purchasing the company. We opened negotiations to become sole owners of the corporation in 1975 and successfully concluded them in July 1977. By then the corporation had gross sales of approximately $200,000 per annum. The corporation's fiscal year ends on September 30. In the last quarter of 1977 Ed and I succeeded in raising the gross sales for 1977 to $578,900 implementing our tactics and acumen which had been frustrated for so long by the previous owner's opposition.

Our ability to take over the company was based on two fortunate circumstances: (1) We obtained a loan guaranteed by the SBA to furnish us with some working capital; (2) the previous owner accepted our promissory note (guaranteed by a personal friend) for the sale of the stock to us. We frankly had no capital of our own then. Had neither of these steps been attainable to us we could not have made the purchase.

In the next 8 years we took the company from a "ma and pa" corner garage shop operation to the point where it is now the leading manufacturer and marketer of grip equipment to the world's film and television industries, and are about to actively enter the still photography market as well with a new line of products more suitable to its particular demands. Over the years we have built an extensive dealer network in the United States, Canada, Mexico, Latin America, Europe and the Far East.

We long ago achieved a secondary meaning for our product and corporate name logo. Grips everywhere call for our product by the name: "MATTHEWS". Our product catalogue contains over 600 different items. No other company in the world compares with this choice of products, nor can any offer the quality of manufacture, reliability or service for which we have become renowned.

Seven years ago we foresaw the need for lightweight, foldable, compact, mobile multipurpose camera mounts and had the minijib developed for sale by 1979. Its success encouraged us to have the Tulip Crane developed for sale by 1981. It is the first foldable, portable, dismantleable crane whose total components together weigh only 600 lbs. It enables the user to carry the crane into tight quarters such as interiors of ships, roof tops, small rooms, stairwells, and other otherwise inaccessible locations where it can be set up to provide the smooth, guided movements which the director requires of his camera angles. It transports two cameramen and gear and is operated by grips. The company received the 1983 Technical Achievement Oscar of the Academy of Motion Picture Arts and Sciences for its design and production of the Tulip Crane.

The success of the crane caused us to develop a smaller version called the Tulip Junior, and a Sky Mote extention arm for mounting cameras and eliminating the need for a camerman to sit on the platform. The Sky Mote has a vertical reach of 27 feet.

Matthews is proud of its most recent achievement related to the Sky Mote. In an effort to assist the entertainment industry increase the safety of its production staffs and to decrease the hazards to the personnel on a shoot, Matthews innovated camera remote systems.

The first step in the innovation process was to acquire the exclusive services of Ernst Bob Nettmann, a well known engineer who received several Technical Award Oscars for his development of the Pitching Lens and Astrovision. Together they produced a highly sophisticated electromechanical state of the art pioneer remote control camera mount. It rotates unimpeded and unrestricted in a continuous 360° circular movement across all angles in response to the commands of a camera operator remotely positioned at any required safe distance who negotiates his shots by watching a control monitor. All of this is achieved without any compromise to the quality of the shot and in coordination with the director and other production personnel who can also watch the shot on their own monitors postioned elsewhere.

The Cam Remote has been widely used on major film features such as Cotton Club, King David, 2010, the Emmys, the Academy Awards, football, basketball, boxing, etc. . . . telecasts. A smaller version has been manufactured for sports broadcasting. Medical applications are being explored at this writing. This new technology is being followed up with new control methods, remote focus control devices and other required improvements. Always with quality, service and innovation as our by-word.

Our constant need to match our appetite for research and development and manufacture of new products is "Capital" with a capital "C". It appears that we have outgrown the limits of the SBA guaranteed financing by virtue of our last full limit loan applied for a year and half ago. But by now our record entitles us to get into other areas of credit previously unavailable to us. However, it is clear without the vehicle of SBA we would have never come this far.

Our sales figures, in gross, for the past 5 fiscal years ending September 30, were:

1980	$2,384,536
1981	3,163,940
1982	3,204,841
1983	3,974,632
1984	4,950,625

The market for televised product is growing all the time as industrial television is expanding rapidly with many companies making their own educational and sales tapes for their own purposes. Cable is expanding and needs to have product to broadcast. All production companies need equipment. All users want the latest state of the art products. Someone has to supply them. Someone has to innovate to match the needs of the marketplace. Surely we aren't the only ones attempting to do so. We have always enjoyed competition. It stimulates your own best efforts. Don't stifle the little guy with great ideas. He might be on the way to start up his own version of our success story. Let him have the same financing opportunities we enjoyed.

Mr. Torres. Thank you, Mr. Moiseeff. You've been a most articulate spokesman for Mr. DeMattos, who is not here with us today. We regret he couldn't be with us.

I think your observations in your closing statements are correct. I believe that's why people are here, because their conscience would not let them live with the fact that future generations or others may not benefit by the kinds of programs or the kinds of guarantees they receive through SBA.

I'm really amazed in the testimony I've heard not only today but yesterday—very much similar in vein as to what you stated—how people really started in garages, in an old warehouse, in a back yard, in an attic, and how they've been able to leverage those businesses with such meager beginnings into the kinds of products, and the kinds of programs, and the kinds of employees and payrolls that very much speak to the product and the company that you've defined.

Mr. Moiseeff. I'd like to add a postscript, if I might. Tomorrow night, the Academy Awards is using this remote control head.

For those who are interested in the Academy Awards, when you are looking at the stage as a viewer, it will be on the left. It enables the camera to be swung from the presenter to the audience back, forth, any which way you want—a plug, if you will.

Mr. TORRES. Fine. I think I do believe SBA deserves an Oscar.

Mr. MOISEEFF. Yes.

Mr. TORRES. Thank you, sir.

May we hear from you, Doctor?

TESTIMONY OF JERALD V. ROBINSON, M.D., ORANGE, CA

Dr. ROBINSON. Thank you, Mr. Chairman and members of the committee. I appreciate the opportunity of taking a few moments.

The last few comments of Mr. Moiseeff, I think, are pertinent to me, because I deal mostly with the way people feel and not with statistics so much. On a business basis at least, I'm very much a layman in the business world, kind of like an onion in a petunia patch.

I've been very, very impressed with the comments this morning by everybody who has been here, and I'm sure you have been, too.

I'd like to just reflect a moment on the last sentence in my statement that was submitted to you, and this echos what Mr. Moiseeff was saying. It's one of the unique advantages of this country, the SBA facility, and I'm thankful for it.

In my particular case, when I read the news announcement that President Reagan had suggested the SBA be abolished, in effect, I had an immediate point of irony hit me, and that is that I'm an ear specialist, and for the past 5 or 6 years I was an associate of one of the most prestigious ear groups in the world.

President Reagan happens to be a patient of one of those doctors, my former associate, and has been treated for a problem, as the Nation now is aware of, for quite some time, and that's a hearing loss, and has done much in the way of, I think, enlightening the public about what can be done for people with hearing problems.

Well, it's through the SBA and Barbara Judge Pritchett and the Central Bank of Glendale, particularly, that enabled me to relocate my office practice in an area that was devoid of specialized services, which I feel I can provide to that area, services such as President Reagan has received.

Yet, he is suggesting that perhaps the method by which I have become reestablished be abolished, and so I felt that irony very quickly and was amused a bit by it but then distressed.

I've been very impressed to learn that Members of the Congress, such as yourselves, are concerned enough to visit areas in the country to get statements from we little people, we who have been the direct beneficiaries of government concern through financing.

Some of my background experiences are stated here. I don't think it's all that important to mention it. You can review that, if you're interested in it. So my comments are brief, based on a very deep sense of thankfulness.

After having unpleasant experiences visiting many banks, my background is such that I have been in institutions teaching and practicing and with other large groups. So I hadn't had the advantage of a financial statement to provide to lending institutions for review.

So it was a first-time venture for me, and the sincerity that I encountered through the bank and SBA officials was very, very impressive, and I'm thankful for that.

Thank you.

Mr. TORRES. Thank you, Doctor. We will enter your entire statement in the record, and it will be printed as such.

Dr. ROBINSON. Thank you.

[Dr. Robinson's prepared statement follows:]

PREPARED STATEMENT OF JERALD V. ROBINSON, M.D., ORANGE, CA

Academic Appointment: Assistant Professor of Surgery/Otolaryngology, University of California Medical School, San Diego, 1978-9/79.

Private practice: Otology-Neurotology, Otologic Medical Group (House Group) Los Angeles, CA Sept. 1979-Sept. 1984.

Private practice: Otology-Neurotology, Sole Practitioner, Providence Building, Suite 210, Orange, CA Nov. 1984-Current.

In November of 1984, I relocated my office for the purpose of continuing the practice of otology and neurotology which is the treatment and surgery of hearing loss, dizziness, balance and facial nerve disorders, along with brain and inner ear tumors.

The financing for the new office was secured through the Small Business Administration, via the Central Bank of Glendale. Four other lending institutions were interested in extending loans for the development of this new office practice, but their terms were excessive, even onerous.

The staff at Central Bank of Glendale in the SBA Department was very helpful, with clear explanations of SBA loan policies, requirements and availibilities for new business ventures. They were very thorough with the review of my needs in relation to SBA availibility.

To be able to deliver proper care to those with ear related disorders, sophisticated equipment is necessary for accurate testing and complete evaluation.

The development of my new office has now permitted special services to be available to the people of Orange County. Previously, these services were not available in this area. The SBA financing made it possible for me to deliver complete care to those with ear related disorders in the Orange County region on a regular basis. The response by the local physicians and patients has been most gratifying, and reaffirms my impressions regarding the need for ear care in this vicinity.

Providence Building, 1310 W. Stewart Dr., Suite 210, Orange, California 92668 (714) 538-8778 (800) 445-EARS

The terms and requirements for the SBA loan are reasonable and affordable, with long term finanacing, no pre-payment penalties, and no loan origination fees. I feel especially appreciative of this agency's existence in view of the alternative sources of funds for office development. Three of the other four lending institutions that I visited did not mention the Small Business Administration.

A point of irony in my case is that President Reagan has received care, for many years for a hearing disorder at the "House Group" where I was previously associated. The SBA financing has permitted me to render care to others with problems like President Reagan has. Yet, I understand he has recommended that the SBA be abolished. For millions of businessmen and other professionals, I strongly urge the continued support through SBA funding of worthy projects. It is one of the unique advantages of this country, and I am thankful for it.

Mr. TORRES. I should advise our witnesses that all testimony here will be printed verbatim as it was presented. It will appear in the official printing of the U.S. Government, and hopefully upon completion of that we will get copies to you.

I want to thank all of the witnesses here this morning.

Mr. Hayes, do you have any questions or statements to make regarding these three witnesses?

Mr. HAYES. Not really. I just want to make maybe one comment. Each of you have submitted prepared statements. It will be scrutinized and gone over by our committee.

I think it is true what you said about the favorable testimony for SBA that we've gotten here, and I think it's all been helpful and important. The problem is transmitting the record of SBA to our colleagues who have to vote.

It could be helpful if you here from the State of California would get hold of some of your people who are in Congress, on both sides of the aisle, and suggest to them that the Small Business Committee is an entity of government that is trying to make a process of good government work for all—as many people as possible.

It would be helpful if you would make contact with them and maybe draw a string on some of those loans that some of them might get if they don't act right.

Thank you very much.

Mr. TORRES. Thank you, Representative Hayes.

I may just ask a question here.

Barbara Judge Pritchett, I proposed a question to our other banker—I think you were present in the room when I did that—relative to the 90-percent guarantee on small loans by SBA.

Were you here when I posed that question?

Ms. PRITCHETT. Yes, I was.

Mr. TORRES. I assume that number 3 in your testimony answers that question?

Ms. PRITCHETT. Yes. As I stated in there, it would affect most nonbank lenders which, as you know, are licensed by the Government to make SBA loans, and that's their sole resource.

With their capitalization, it would affect them very greatly, and much smaller banks that are not capitalized as well as American Pacific, as well as we are, and numerous other independent banks, and the major banks—I guess it goes without saying, it wouldn't affect them either, but it would affect the small bank in the community that just started up that wants to get into the program and wants to help business in their area; it would affect them.

I would say that 75 percent—which is what has been proposed—is a little much; 80 maybe they could live with; but it would affect them and not the larger institutions.

Does that answer your question?

Mr. TORRES. Yes. Thank you very much.

Ms. PRITCHETT. Thank you.

Mr. TORRES. Well, I would like to excuse the three of you now and, again, reiterate our gratitude for your coming forth this morning.

Ms. PRITCHETT. Thank you for having us.

Mr. TORRES. To proceed right along, I'd like to invite the next panel to come forth. We would be asking Susan Mendoza, the senior vice president of Frontier Bank, to join us up here, along with two small business clients—Chang H. Kim and Efren Encarnacion.

Good morning. How are you?

You've seen the procedure under which we've been operating. It's been very informal. We will ask that you make your remarks in the order that I invited you up here, and we will begin then with Ms. Mendoza.

TESTIMONY OF SUSAN A. MENDOZA, SENIOR VICE PRESIDENT, FRONTIER BANK, N.A., BUENA PARK, CA

Ms. Mendoza. I would like to thank you for giving me the opportunity of giving my statement.

I'm representing Frontier Bank from Buena Park.

The SBA Guaranteed Loan Program is a business partnership between the public and private sectors using private sector capital to create jobs and stimulate the economy.

The administration says that Federal loans are unnecessary, that private capital sources alone are sufficient for expansion financing for business. The administration contends that the SBA Credit Program duplicates assistance provided more effectively by the private sector.

From our point of view as lenders, we strongly feel that there is a void in the financial marketplace. Without guarantees of the SBA, term capital is simply not available to many good quality, creditworthy small businesses. The emphasis of lenders and the SBA is on good quality, expanding companies which do not have a perceived growth potential to attract venture capital, as they are companies who will probably never go public but whose financing needs are of a long-term nature than can be obtained conventionally. Without the guarantees by the SBA, thousands of small businesses would go without the financing necessary to enable them to expand and, therefore, create new jobs and generate more tax revenues to the Federal Government.

The Loan Guaranty Program returns money to the Government. Each dollar of SBA financing generates $7 of revenue to the local and Federal Government. Because the Federal budget deficit is a serious problem which must be solved, the impact of the SBA's Loan Guaranty Program on it and interest rates in general must be considered. The benefits derived from these programs need to be considered to determine whether the costs to support them are justified. In 1977, SBA conducted a study of its 7(a) Loan Guaranty Program to determine its actual cost and benefits. The conclusions of that study were that $1 billion of the SBA guaranteed loans have the potential to create and maintain 100,000 jobs in the private sector. As a result, the Government would realize a significant return on its investment through increase in business and personal taxes as well as savings on welfare compensation payments. In effect, the program returns money to the Government after covering the cost of administration and loan losses. The conclusion to be drawn is that the public and private sector can work constructively together to each other's benefits through creatively designed programs such as the SBA's Loan Guaranty Program.

The small business owners are not looking to the Government for handouts, grants, or subsidies. What they do desperately need is a Government program that makes it possible for eligible commercial lenders to finance their business needs on terms that are reasonable, competitive, and not out of line with terms available to big business owners.

The SBA 7(a) Guaranty Program is such a program that provides lenders a vehicle to offer long-term financing to the small and medium sized business community. In fact, 30 to 40 percent of the dollar amount of the banks' long-term financing to small businesses may carry an SBA guarantee.

These statistics have been compiled by the National Association of Government-Guaranteed Lenders.

As active commercial lenders, we are very aware of the productivity and job creation potential of small business. To eliminate the SBA and its Business Loan Guaranty Program would create shortage of capital necessary to finance the growth of what is recognized as the most productive sector of our economy and would be counterproductive to achieving the economic goals of the Reagan administration.

I have been in the lending industry for the last 4 years, and I do not have the same history as my associates have, but I have seen how SBA has helped in the small business community. I have processed at least 60 SBA-guaranteed loans with a total of approximately $15 million. As I have mentioned before, these business owners do not ask for handouts. All they needed were easier and longer term financing to give them a chance to grow. I had one loan that has been liquidated, two loans in the process of defaults, and about two or three delinquencies. Like other loans, these loans being processed are also being qualified as contrary to the general conception that the SBA lending is a social work affair. Also, as a commercial lender, we cannot make these loans without Government guarantee because of some bank regulations by the Comptroller of the Currency.

Elimination of the SBA guaranteed lending program will hurt thousands of small businessmen and women who need assistance to meet the challenges of the free enterprise system. It will end a very productive source of credit for America's small businesses. The end of the Government-guaranteed lending to small business will mean the end of small businesses. The final result will actually be less tax revenue from small business due to the halt in growth and expansion in this sector of our economy and higher unemployment rate.

As one of the lenders involved in the SBA Guaranteed Loan Programs, I strongly feel that the SBA Guaranty Program, with the support of the Congress, will increasingly enhance the ability of the small business concerns to add employment, new products, and services to the economic growth of our country in the future as they have in the past.

Mr. TORRES. Thank you very much, Ms. Mendoza.

We'll now hear from our next witness.

TESTIMONY OF EFREN E. ENCARNACION, SANDS CLEANERS, BURBANK, CA

Mr. ENCARNACION. I'm representing Sands Drapery Cleaners. It is a 37-year-old business, wholesale and retail drapery cleaner, located in Burbank.

I was able to purchase the business, including the real estate, through the SBA Loan Program. Without the SBA Loan Guaranty Program, I would not have the opportunity to own and operate this business.

From the country where I come from, I was involved in real estate business, restaurant, trading firms, and the wholesale and retail dry cleaning industry, all of which I owned until I migrated to the United States to try a bigger challenge, joining America's world of business.

With my bachelor's degree in economics and my tremendous experience in business management and operations, I made a thorough study on the kind of business I would go into. When I found this kind of business lucrative, I went to a dry cleaning school and learned all the techniques of modern dry cleaning.

No bank gave me the chance to prove myself on a direct lending basis due to lack of longer credit background. It was the SBA Loan Guaranty Program that gave me the opportunity. I got the right bank to participate, and now I am a small business owner. Because of the trust the bank and the Government have given me, I was able to overcome all the critical problems not disclosed by the seller. With a little more hard work and struggle, I am now on my way to profit.

Without the SBA Loan Guaranty Program, I would have wasted my educational background and special talent in business operations and the open market industry of business. I try to help smaller outlets, which is creating employment, give service to the public and institutions and businesses like Universal Studios, Burbank Studios, Bell-Air Hotel, Lockheed, hospitals, and libraries, and other State offices and existing smaller dry cleaners. I also cater to the general public.

SBA's help did not end in just financing. SBA is now helping me acquire more accounts through government bids—my special thanks to Frank Schwengel—and other business accounts to give me the right people to contact and direct moral support.

Elimination of the Business Guaranty Loan Program would mean the end of hundreds of businessmen like me and women who need assistance and special programs that will enable them to have access to capital for their growth and expansion. Small business owners do not have the influence the larger corporations have and do not have the borrowing power they have in the open financing industry. SBA guaranty programs had been in the past, still, and will be, if SBA is not eliminated, encouraging banks and other lenders to consider small businesses for competitive financing along with other larger corporations and more potential borrowers. I know that without the SBA Loan Program the small business industry will die a natural death and, when this happens, will create great impact in the Nation's economy, employment, taxes, and revenues for the Federal and State government. All our concepts of

America's free enterprise will be contradicted, because these small business owners who are now in the process of growing will not have the right opportunity to prove their worth, will just fold up and be allowed to be eaten up by larger corporations who will have all the opportunity in the financing market.

I am urging you, as a small business owner who has enjoyed the benefits of SBA borrowing, to protest the proposed elimination of the Small Business Administration. The SBA has contributed significantly, although indirectly, to the reduction of the unemployed, because every small business, whether starting or expanding, needs more people to work. SBA has enhanced the growth of the small business industry, which is the backbone of the Nation's economy. Without such businesses, there would be no freedom of enterprise, there would be no chance for strong potential entrepreneurs.

Thank you.

Mr. TORRES. Thank you very much for your eloquent statement. Sir, we'd like to hear from you.

TESTIMONY OF CHANG H. KIM, FOTO EXPRESS LAB AND STUDIO, HARBOR CITY, CA

Mr. KIM. Yes. I wanted to make a thought about the SBA, and I would like to give an example.

My business is one of photos, a drive-in innovative in the business 4 years ago.

Mr. TORRES. Your business—which is your business?

Mr. KIM. The one on photo developing——

Mr. TORRES. Foto Express Lab and Studio.

Mr. KIM. I started one Foto with my wife like a "mom-and-pop" store. A year later, I found out I got to do one more. I opened the second store. Two stores were successful, but I found a problem in the finance problem.

I wanted to open the third store, but in the existing bank, like in the two banks, I borrowed about $120,000. So I met in the SBA. The SBA and the bank took my three rental properties, including my old business. So my third business is again successful. I can say now I just made a contract to open my fourth store without any loans again.

When I had my one store, I just worked with my wife and one employee. Now I have nine employees. I need five more employees when I open one more store. So that's the way the SBA helped.

Also, the other thing I can say, when I go to commercial bank, there are so many regulations, so many problems, to increase all the amount and the bank loan terms. It's almost impossible for me to loan from the commercial bank under the present situation.

Thank you very much, sir.

[Mr. Kim's prepared statement follows:]

PREPARED STATEMENT OF CHANG H. KIM, FOTO EXPRESS LAB AND STUDIO, HARBOR CITY, CA

I started my business, The FotoExpress Center in September 1981 located at 1202 Pacific Coast Highway, Harbor City, California. My educational background and knowledge of photography was the key to my success in the management of the business. In September of 1982, I expanded and opened my second store in Carson City. The new store was instant profit because I hit the right location. Then, I made a survey on how I can save on my overhead and administrative expenses. I came out with new equipments that would be able to service the two locations plus another one.

I tried to get a regular commercial loan or lease but the term was too short. I know I will be able to pay the loan but I am also aware that my cash flow will be affected because of the high monthly installment I will have to pay for the new equipments plus the third store. My purpose of doing business to make profit and be comfortable would then be defeated. I went to Frontier Bank to the SBA Division and I was able to negotiate for a $250,000.00 SBA loan for my new equipments, new third location and a little working capital to hold the start of the new store at the lowest New York prime rate with a spread of 2.75% payable in ten (10) years (120months) fully amortized. This was the best deal I ever got. With the easy and longer term, I was able to expand the way I wanted, was able to purchase the right equipments to lower my overhead expenses and was able to hire 5 more employees for the new store and the other two. I pledged my home, my two other rental income properties, and The Bank took first position om all my business assets. It was like any other regular commercial loan except I had a longer term that gave me enough room to settle the third location and I was able to run the business smoothly without hurting my cash flow. The monthly payments were not stiff and I am very proud to say that I am current on my payments.

Without the SBA guaranteed loan program I would not be where I am now. I might have been able to borrow from commercial (conventional) lenders directly without SBA guaranty but I would have been in a very tight cash flow situation. Most important is due to the short term of the loan, I would have had to work just to pay the loan and not enjoy profit until loan is paid. With the easy and longer term of the SBA loan, I had the opportunity to enjoy profit after the debt service.

Elimination of the SBA would be encouraging monopoly of the larger corporations as they will be the only ones who will survive the tight competition in the financing marketplace. Small businessmen like me will not be accommodated by other lending institutions without the SBA guaranty. Small business owners' most critical continuing problem is access to capital for business growth and expansion.

As an American small business owner, I ask you to please review closely the real facts regarding the SBA. I am not only speaking for myself. I am speaking in behalf of all business men who need assistance to meet the challenges of the free enterprise system of this nation. SBA is a very strong advocate for American small business which comprises the nation's whole economy.

Mr. TORRES. Thank you, Mr. Kim.

Perhaps relative to that last statement, in discussing the difficulty in dealing with commercial banks, are you saying that by dealing with SBA personnel you were able to——

Mr. KIM. Oh, no, sir. I mean it's like in the long-term concerns. Commercial banks usually require 3 or 5 years. At the maximum, they are asking 7 years, which is almost impossible for me to repay the loan. But in the SBA loans, they usually give us 7 years and 10 years to make easy payment.

In other words—and that is when I do business—the profit is going to the payment every month if I deal with a commercial bank, because the payment is very high.

So now I can say that profit will go back to reinvestment again. So I can go up one more step. Otherwise, commercial banks do not allow me to do like endeavor. I have to pay up full amount in less than 4 years or 7 years. No, I don't think in 7 years; in 3 years or in 4 years.

Mr. TORRES. Thank you.

Mr. Hayes, any questions?

Mr. HAYES. No, I don't have any. I think the testimony speaks for itself. It's well prepared.

We don't have copies of your statement.

Mr. TORRES. I have Ms. Mendoza's and Mr. Encarnacion's.

Do we have a statement from you, Mr. Kim?

Mr. KIM. Yes, sir.

Mr. HAYES. All right.

Mr. TORRES. Thank you very much for the three of you joining us this morning. I should say for Mr. Hayes and myself that this kind of testimony is what we would like to hear, obviously.

We know that the agency that we are discussing has obvious flaws, like anything else, but I think what we've learned from you is to be able to scrutinize those flaws and to be able to return to our committee and indicate your experiences, your experience as a banker, and yours as business persons, into how we might best rectify those deficiencies. It's only from this kind of testimony that we can garner that type of information.

Thank you very much.

Mr. KIM. Thank you, sir.

Mr. TORRES. We're going to follow this procedure here. We have been convened now for some 3 hours, taking testimony from our witnesses. We think that possibly we might enter into a small break—10, 15 minutes.

We would ask the other witnesses to bear with us and give us a break, and we will now recess for approximately 15 minutes.

[Whereupon, at 1:05 p.m., the subcommittee recessed, to reconvene at 1:25 p.m., the same day.]

AFTERNOON SESSION

Mr. TORRES. Ladies and gentlemen, we're going to resume our hearing now.

For those of you who came in late, I'd like to introduce myself. I'm Congressman Esteban Torres, representing the 34th Congressional District of California, the greater San Gabriel Valley area.

I'm joined today by another Member of the House of Representatives, a Representative from the State of Illinois, the city of Chicago, Representative Charles Hayes, on my right.

On my left is the general counsel of the Committee on Small Business of the House of Representatives, Mr. Tom Powers.

We've been listening all morning to testimony from various sectors of our local economy here, hearing from witnesses who have come forth to present testimony relative to the proposition that the Small Business Administration be abolished.

We're now going to call forth the next panel, which deals with surety bond issues.

I will call Mr. Bill Shupper, of Lou Jones & Associates, to join us here at the witness stand. We'll also invite Mr. Petak, who's in the audience. Mr. Hinkley was with us earlier. However, he had to leave. The Chair would, at this time, without objection, enter into the record the prepared statement of Mr. J.R. Hinkley.

[Mr. Hinkley's prepared statement follows:]

PREPARED STATEMENT OF JACK R. HINKLEY, OWNER, J.R. HINKLEY & ASSOCIATES, GENERAL CONTRACTORS, CANOGA PARK, CA

J. R. Hinkley & Associates is pleased to submit the following statement to the Committee on Small Business in support of S. 408, the Small Business Authorization Bill for Fiscal Years 1986-1988.

In March 1975, J. R. Hinkley & Associates was formed and qualified as an 8(a) Contractor thru the Small Business Administration. At that time, I obtained an SBA direct loan to purchase the additional equipment required to start my business. Without the full support of the SBA, the SBA Surety Bond Program and the SBA Direct Loan Program, this Company would not have survived let alone prosper as it has. Our progress has been relatively slow, however, steady. In 1975 and 1976 our largest job was in the area of $10,000.00. We are currently competing and performing on projects well in excess of one million dollars.

It would be virtually impossible to start a small construction company and have the necessary capital and track record to obtain bonding from the private sector without the backing of the SBA. The SBA Bond Guarantee Program made it possible for this company to establish a track record and become solvent to the degree we currently obtain bonding without the help of the Bond Guarantee Program.

Presently, we employ approximately twelve people and have many subcontractors and their employees working on various projects throughout Southern California.

It is clear to me that the Bond and Loan Guarantee Programs are not Welfare programs or give-away programs, but programs that contribute to the economic growth of our country. To reduce or eliminate them wouid clearly mean additional unemployment, less tax and bond revenues that support the objective to reduce the deficit.

Mr. TORRES. Is Mr. Escudero here?

Mr. Escudero is not here. We will excuse him then as a witness.

I will turn immediately then to receive testimony from Mr. Shupper.

TESTIMONY OF WILLIAM J. SHUPPER, VICE PRESIDENT, LOU JONES & ASSOCIATES, LOS ANGELES, CA

Mr. SHUPPER. First of all, I didn't want to take away from the contractors today. I just wanted to come in and give a little overview as a representative of a bonding company.

I had a couple of other contractors scheduled to speak, and, as you know, they both had commitments this afternoon and had to leave, and they have given testimony in writing, which I think you have copies of.

Mr. TORRES. Would you specifically identify those contractors?

Mr. **Shupper**. Mr. Hinkley and Mr. Escudero. They both had commitments this afternoon and had to excuse themselves.

Mr. **Torres**. Then, as chairman of this hearing, I will take their prepared statement and enter that into the record.

[Mr. Escudero's prepared statement follows:]

PREPARED STATEMENT OF ROBERT T. ESCUDERO, PRESIDENT, ROBERT ESCUDERO, INC., GENERAL ENGINEERING CONTRACTOR, LA CRESCENTA, CA

I am testifying on behalf of my company, its employees and numerous other small companies and their employees. I respectfully request that you retain the services of the Small Business Administration; I am particularly alarmed at the possibility of eliminating or reducing the services of the Surety Bond and Small Business Loan programs.

My company employees 40 people. In the past, we have relied on the Surety Bond guarantees of the S.B.A. to bond some of our projects; without the loan program of the S.B.A., most small businesses could not get off the ground.

It is clear to me that programs such as the loan and bond guarantee programs generate work and contribute to the economic growth of this country. To reduce or eliminate them will mean additional unemployment and less tax and bond revenues that will help reduce the deficit.

My company believes that the administration is making a grave error in eliminating the Small Business Administration and more particularly, in proposing the elimination of the Surety Bond Guarantee programs. As taxpayers, we are sensitive to the burgeoning cost of government and the potential for increased taxes. However, we feel just as strongly that the Surety Bond Guarantee program is absolutely necessary to the survival of thousands of small contractors across the United States. Further, instead of being a burden to the taxpayer, the Surety Bond Guarantee program saves the government millions of dollars each year.

In addition, there is an obvious benefit to both the government and the public at-large in supporting thousands of jobs in the contractors for which bond guarantees were provided. Construction firms provide jobs in many cases for individuals who are not highly skilled and for whom it is difficult to find employment.

In summary, we support your efforts to maintain the Small Business Administration and its role as an advocate for the thousands of small businesses in the United States. We urge that you consider our contention that the Surety Bond Guarantee program should stand on its own within the Small Business Administration as an effective and efficient program for providing small and minority contractors with the bonding necessary to work on government contracts and at the same time generating substantial savings to all levels of governments.

Mr. **Shupper**. I first want to say that I have a much larger complete document that I would like to have entered into the record at a later time, of which I will mail copies. I just did a brief overview today.

Mr. **Torres**. Without objection, we will take your materials at a later point and have those entered as part of the record.

Mr. **Shupper**. Thank you.

[No additional information was received.]

Mr. **Shupper**. Really, what I want to say is that, by being the managing general agent of Balboa Insurance Co., which is the largest participant in the Surety Bond Program in the Nation, and as we are, we represent Balboa Insurance Co. in about 18 to 20 States, primarily on the western side of the United States. We have been in the program since 1976, and we have always represented Balboa Insurance Co.

We would like to see that the program continue, especially would like to make sure that the program—the bond program—which we do not hear much about—we read in the papers, and we see the reports. Everything seems to be pushed towards the direct loans and the loan portion of the program, and the Surety Bond Program is being put into that as part of but not singled out as the importance of the program on its own.

You know, we take the small contractor, and we need to identify that—that we're taking the small contractor who is not able to go to a facility, a standard company facility, which we'll use, and obtain bonding assistance.

We do not keep the contractor in the program any longer than the contractor needs to be in the program.

We do have facilities outside the program and honestly can tell you that, without the program, without using the program—we have a different premium structure, different rate structure—we really are more profitable by not using the Bond Guarantee Program as an insurance agency.

We use the program because it's necessary to use. Contractors just do not have the opportunity and the ability to get bonding elsewhere.

The contractors who come to us are mostly contractors, not businessmen. What we do is, we institute a feeling in them of a "crawl before you walk" type of attitude. We get them set up. We get them properly set up. Accountants—primarily act almost as a consultant to them without their business. We let them run their own business, but we guide them.

As soon as we get them to the point where their sales are volume—we're telling them what kind of jobs we think they can do, with the assistance of the SBA—we take them out of the program and put them into the standard facilities.

Our records and statistics that I have, that are in Washington, would prove the fact that we've been able to place a lot of contractors in the program and graduate them out of the program within a few years.

We have contractors that stay in there as long as 10, 12 years. They're small contractors, and they just don't grow. They slowly grow out of the program, though, eventually.

But primarily what we're trying to do is, we're just trying to make them businessmen, and, by using the SBA program, we're allowed to get into that mode.

They're smaller, and they're trying, and they're pretty good guys, and our loss ratio will prove that we underwrite them pretty well. If they can't do the job, we don't write them.

I think in my testimony that you might have a copy of, we show that in the fiscal year 1984-85, from October to February, we've had zero losses in California, which is by far the largest State in production of the whole country.

So in conclusion, I just want to say that we agree with what a lot of the Government efforts in cost efficiency and what they want to do, but we'd really like not to see the elimination of the program, because we think that it could possibly eliminate the small businessman in the contracting field.

[Mr. Shupper's prepared statement follows:]

PREPARED STATEMENT OF WILLIAM J. SHUPPER, VICE PRESIDENT, LOU JONES & ASSOCIATES, LOS ANGELES, CA

As Managing General Agents for Balboa Insurance Company, the largest representative in the Bond Program there is a definite concern about the future of this program.

Statistics are proof that the Bond Program has a positive effect on the economy. In California alone which is the largest producer of Bond Guarantees in the Country with production over $400 million from the fiscal years 1980 through 1984. And current results continue to show the growth of the program and with very few actual losses. In fiscal year 1984-85 through February 1985 there has been zero losses in California.

As managing General agent, we have provided contractors bonding through the SBA since December of 1976. With production just under 1 billion dollars. Without this program who can say what this figure would be? We stress the fact that the Bond Program has a positive effect on the economy by creating more jobs therefore reducing the economy and then helping reduce the deficit not increasing it.

We have helped many thousands of contractors who without this program would not be in business today. We have proven results that by using the theory you crawl before you walk attitude has really helped graduate contractors into the standard bonding facilities.

In conclusion: We agree with the efforts of the government in running a more cost efficient economy, but by elimination of the Bond Guarantee program we will only be eliminating the small business slowly.

Mr. TORRES. Thank you very much, sir, for your comments.

I'd like to hear now from Mr. Petak, who probably can attest to your own particular testimony.

Mr. Petak.

TESTIMONY OF ZLATKO PETAK, PETKO PAINT CO., INC., WALNUT, CA

Mr. PETAK. I'm Zlatko Petak. I come from Yugoslavia to the United States in 1970 for the opportunity to make a living.

I started my own business after working for another contractor in 1975. I attempted to break into the bonded market, but without much success. I was small without many assets which the bonding companies were looking for.

I contacted Lou Johnson Associates for bonding assistance because I heard of a program set up to help the small contractor compete for jobs. With the help of the Small Business Bond Guaranty Program I essentially completed my first bonded job in Yuma, AZ. This was just under $11,000 contract price.

I continued with the program and I have completed another 30 bonded jobs.

In 1984, I graduated from the program, and now with sales just under $1 million, I obtain my bonds through a standard market.

Without the assistance of this program, I would not be in business today. It helped me when I needed to establish some roots. I was in the program, and I graduated to where I initially wanted to be.

It might have taken me 9 years, but the SBA was a great stepping stone. When I heard rumors of closing down this program, I became concerned, as it has been a great help to me and a lot of other people I know, and I am a positive result of what this program is all about.

Mr. TORRES. Mr. Petak, thank you very much for your statement.

Can you give me some idea—I know that you started this business by yourself.

Mr. **Petak**. Yes.

Mr. **Torres**. How many people do you employ currently and perhaps you can give me some idea of your payroll?

Mr. **Petak**. Yes; my payroll in 1984 was $536,000.

Mr. **Torres**. $536,000?

Mr. **Petak**. Yes.

Mr. **Torres**. And you employ how many people in your business?

Mr. **Petak**. I employ, steady, 9 people, but if it's really busy, 13 or 14 people.

Mr. **Torres**. I see. Thank you very much.

Mr. **Petak**. But nine people steady.

Mr. **Torres**. Thank you, sir.

Mr. Hayes, do you have some questions of our two witnesses?

Mr. **Hayes**. Just one question, I guess, of Mr. Shupper.

I notice you represent the surety bonding company; is that right?

Mr. **Shupper**. Yes, sir.

Mr. **Hayes**. These are performance bonds, I guess.

Mr. **Shupper**. Yes.

Mr. **Hayes**. Contractor's can't get guaranteed loans without being able to show that they can secure a performance bond. Is that the way it works?

Mr. **Shupper**. You mention the loan.

Mr. **Hayes**. Right. You don't lend the money, do you?

Mr. **Shupper**. No; we're not into the lending at all.

Mr. **Hayes**. All you do is to bond them—guarantee performance.

Mr. **Shupper**. Exactly.

Mr. **Hayes**. Is that right?

Mr. **Shupper**. Right.

The SBA has a guarantee of 90 percent up to $250,000 and 80 percent to $1 million, and it is to guarantee the bid performance and payment bonds.

Mr. **Hayes**. I've run into this problem in other areas in some of our hearings. Some minority contractors have complained that they have trouble getting surety bonded, and hence they are not able to secure SBA loans. Is that a problem here on the west coast or here in the Los Angeles area?

Mr. **Shupper**. Well, I wish Mr. Hinkley were here. Mr. Hinkley was an 8(a) contractor and is still in the program. He might be able to enlighten you a little better on that.

I can think of about a handful—six contractors that I have that are 8(a) contractors right now that are in the program. We have not found that to be a problem out here.

We don't run into as many 8(a) contractors in some of our other offices that we represent. Mostly the ones that we represent are here in Los Angeles, CA.

Just speaking right off, without having any statistics in front of me, I can't really think of the last time that I could not place an 8(a) contractor in the program.

Mr. **Hayes**. Some blacks and Hispanics back in the Midwest, particularly in the Chicago area, have charged actually the inability to get bonded has been used as a barrier to keep them from getting contracts.

Mr. **Shupper**. In California, and especially in Los Angeles, what we have done that has really helped is that when we get an 8(a) contractor into our office who wants to get set up for bonds, we establish a line that we feel he can bond to immediately.

We send a copy of that line, and we talk to the 8(a) office, the local office, and we give them an idea of where we feel comfortable with this contractor.

When we do that, we do not ever seem to have a problem with that. Now, the reason we do that is because in the past we did have that problem. We would get contractors coming in the door for large contracts that they did not qualify for, that the 8(a) had given them the opportunity to do, and they would come in for bonds they didn't qualify for, and yes, we would have to turn them down.

Now that's changed, and we've been able to educate the 8(a) Program into saying, "Hey, these guys only qualify for a $200,000 job. They stay under that limit." By not giving them any contractor in the 8(a) program or any program, if a guy says, "I have a $500,000 job. Do you want to do it?" you're going to say, "Yes, I'd love to do it." Even if you can't do it, you're going to.

That's what's so good about having the bond program, is because it's an extra stopgap there, because we're financial people, we're looking at their case, and if they do not qualify, we're not going to write it.

So, by going to the 8(a) up front and saying, "This guy can only qualify for $200,000," they're not going to come to us for a $300,000 bond. We have a great communication with them; fine; no problem.

Mr. **Hayes**. One area that has been a particular problem has been highway construction. Under the statutory requirements, 10 percent of the total money is supposed to be set aside for minority businesses.

Well, you can set aside the 10 percent. If you can't qualify, can't get bonded, you don't get a loan, and you can't get the business. So, this is the thing that has created problems. I'm glad to hear you're not experiencing that kind of problem here.

Mr. **Shupper**. We've written numerous contractors on the Century freeway project here in Los Angeles and have had great success with them so far, and it just continues.

Mr. **Hayes**. Thank you, Mr. Chairman.

Mr. **Torres**. We thank both of you for coming here today and testifying before our committee.

As we indicated, we will take the statements of the other gentlemen who were not able to be here, and we will include their statements for the record.

Thank you very much.

We're keeping on schedule at this point, and we'll now hear from the last of our panels, the direct loan panel—those witnesses that have been the beneficiaries of the SBA Direct Loan Program and, of course, of additional assistance.

I'd like to invite forth Mr. Robert Ozuna, who is the president of the New Bedford Panoramex Corp. of Santa Fe Springs.

Mr. Ozuna, if you will join us up here at the front.

We'd also like to invite Mr. Oscar Bruner, who is the president of Caliagua, Inc., Anaheim, CA.

Mr. Bruner?

Gentlemen, welcome to the House Committee on Small Business.

Mr. Hayes and I, as you know, are today hearing evidence from witnesses from the Los Angeles area, and we welcome you to our committee.

Mr. Ozuna, I will ask you to go first and present your testimony. As you saw, it's very informal. We would like you to keep it down to 10 minutes, if possible, in order for us to keep our schedule on time.

Please proceed, sir.

TESTIMONY OF ROBERT OZUNA, PRESIDENT, NEW BEDFORD PANORAMEX CORP., SANTA FE SPRINGS, CA

Mr. OZUNA. Thank you, Mr. Chairman.

My name is Bob Ozuna, and I'm a manufacturer of electrical and electronic controls and control systems. I've been in business for approximately 18 years.

My primary business has always been with the oil industry, the power systems, power companies such as nuclear powerplants, offshore drilling platforms, mining facilities, and so forth. So, I've primarily been in the commercial sector of the business for the last 18 years.

I started my company in 1966 with myself and my wife as the only employees and currently have approximately 55 employees. We started with $22,000 in sales in our first year of operation. We are presently operating at a $6-million-sales level.

I was very recently certified as an 8(a) contractor and have been very fortunate, because of the SBA being able to help me in different matters such as a direct loan I had about 10 years ago for $100,000. That since has been repaid, incidentally, in full, and they again are very instrumental—I was just selected on an 8(a) pilot program for the FAA, and the total amount of that contract is approximately $46 million.

I would have not had a chance to do this had it not been for the SBA. So I feel it would be almost an impossibility for a small business such as myself to get to a position such as that without the direct assistance of someone like the SBA.

[Mr. Ozuna's prepared statement follows:]

PREPARED STATEMENT OF ROBERT L. OZUNA, PRESIDENT, NEW BEDFORD PANORAMEX, CORP., SANTA FE SPRINGS, CA

Your name: Robert L. Ozuna.

Name of business and form of business organization: New Bedford Panoramex is an engineering and electronics manufacturer incorporated under the State of California.

Address of firm: 8333 Chetle Ave., Santa Fe Springs, California.

Your current position or responsibility: I am owner and president.

Number of employees: with 50 employees.

Type of loan: The loan was a direct capital equipment and working capital loan.

Amount: $100,000.00.

Interest rate: 6.5/8 percent.

Term of years: 10 years.

The banks were not interested in this type. As in the case of any small business attempting to expand we were under collateralized.

We also received assistance from the SBA in management marketing and manufacturing consultation. Costly services that were necessary for our expansion plans.

The SBA has been very helpful in many ways, primarily by filling those financial management and marketing gaps usually created by growth. Generally institutions regard small businesses, specifically minority businesses as "High Risk". It's only when you don't need the money or when you can afford "High Priced" consultation that institutions offer their help.

I firmly oppose any legislation that would not fully support a person's opportunity to become his own boss.

Mr. TORRES. Thank you, Mr. Ozuna.

Let me stop here at this moment. That's a phenomenal growth from a two-person company not too long ago to a company now that has just received—did you say a $46 million FAA contract?

Mr. OZUNA. Yes, sir.

We have not received the contract. We're in the negotiations for this contract now. We don't expect to be funded until sometime in October, but we are currently negotiating.

Mr. TORRES. Could you describe for us just briefly the nature of what you will be doing for FAA?

Mr. OZUNA. The contract is for an ILS system, which means the instrument landing systems for all major airports, and what that is, is a backup system for the landing—computer landing, which now exists.

This will be a backup to that system in case of any failures, and we're contracted to, of course, design, build, install, and train the personnel. It's about a 3-year contract.

Mr. TORRES. May I ask how many people you employ in your company?

Mr. OZUNA. We currently have about 55 people. With this contract coming onboard, we will eventually bring our work force up to approximately 150 people.

We also have other contracts directly through our 8(a) contracting that have been very successful, such as Redstone missiles and some Air Force contracts that we're also negotiating at the time. So we feel that we are going to have a phenomenal growth within the next——

Mr. TORRES. In other words, from your initial SBA direct loan of $100,000—was it?

Mr. OZUNA. Yes.

Mr. TORRES. You've been able to build your company on the basis of various project areas, become an 8(a) certified contractor, and is this FAA contract that you're now negotiating a consequence of your 8(a) certification?

Mr. OZUNA. Yes, it is. That was a direct set-aside as a pilot program that the Department of Transportation was—I guess they adopted that program for some reason or the other because they were not participating on 8(a) contracts like they should have been.

Because of this pilot program, obviously, it gave me a chance to come in without any experience, and, as a matter of fact, now I've become a major contractor, and as a subcontractor to myself I have Northrop. So you can see the difference in power there that has helped us to develop that.

So we're no longer just working with the major contractors, but we have also become a major contractor ourselves, and utilizing major contractors as subcontractors.

Mr. TORRES. So, in essence, you will, indirectly then, effectuate greater employment because of this fact?

Mr. OZUNA. Yes.

Mr. TORRES. Mr. Ozuna, that's a commendable record and story, and certainly we wish you well in your negotiations.

Mr. OZUNA. Thank you.

Mr. TORRES. Again, it attests to the fact that your small company has been able to grow this way because of the assistance of the agency.

Mr. OZUNA. Yes, sir.

Mr. TORRES. Perhaps Mr. Hayes would have some questions along this line.

Mr. HAYES. I just want to commend Mr. Ozuna for what he has been able to accomplish in such a short period of time.

The one question that came to mind as you were talking about the process now of negotiating for a $46 million contract with the FAA, one of the charges in some areas—you said you got 8(a) certification, which means that you are considered to be a minority. Is that right?

Mr. OZUNA. Correct.

Mr. HAYES. I don't know a nice way to ask it, but one of the charges that come up from time to time, particularly in other areas, is that in order to comply with the rules and regulations regarding minorities and the amount to set aside, some of the bigger companies have been hidden in the background, and they use the minorities as fronts. You're strictly on your own; is that right?

Mr. OZUNA. Yes, it's true.

Mr. HAYES. All right.

Mr. OZUNA. In my case, that's not the true.

Mr. HAYES. But this has happened in some instances.

Mr. OZUNA. Yes, it has happened in many, many, many cases, and I think that that's one of the things that the SBA should look at. That obviously has been abused.

Mr. HAYES. That's right.

Mr. OZUNA. Not only by the SBA and some minority firms, but I think that without the SBA's assistance, they couldn't ever have gotten to the position that they've gotten or where I've gotten.

It's true, and I don't think that that exists as much as it used to, because the SBA has really tightened up on that.

For instance, on this contract, they've made very, very sure that the participation of the major contractor with me on this contract is only 40 percent. The total contract is a 60–40 split, and we totally have control of that contract. There is nothing that that contractor can do but support me in the way that we want him to, and we're running that one.

Mr. HAYES. Good. I'm glad to hear it.

One of the basic charges that I read the other day in Chicago, for example, is this big expansion program at O'Hare Airport. According to the Government, there are a lot of Federal funds involved, and regulations require that a certain amount of that money go to minorities.

Now, what is happening according to Business magazine that published it, some of the minorities are just fronts; it's business as usual.

Mr. OZUNA. That was very true. I think that's changing very rapidly though.

Mr. TORRES. Thank you, Mr. Hayes.

We'd now like to invite Mr. Bruner to present his testimony to us.

TESTIMONY OF OSCAR BRUNER, PRESIDENT, CALIAGUA, INC., ANAHEIM, CA

Mr. **Bruner**. Yes. I'm the president and general manager of Caliagua, Inc. We are general engineering contractors, and we were incorporated in the State of California in 1978.

I would like to make a brief story of how I started this company, because it's relevant to what we are talking about.

I had worked for 13 years as the manager of a construction company, and, having immigrated to the United States in 1963 from Argentina, I was used to the ways of business of Argentina where, if you work for an employer, you're there until you retire.

But this company all of a sudden decided to close operations, and they asked me if I wanted to buy their company. That was my last month at work, and I decided that I didn't have the means to buy the company, and the company in reality was represented by myself, who was doing all the work for them at that point. I was the general manager.

So I decided to start Caliagua. I contacted a few friends, but the question that always popped up was lack of money. To start a construction company, you do the work now, and you're paid 90 days later, and you have to have cash flow.

I had been a customer of the Bank of America for the 15 years that I had lived here in the United States, and when I asked them for a guaranteed SBA loan, they turned me down. I was a Triple-A customer, but they said, "Well, you don't have any experience. You don't have any track record."

I went to another bank, Farmers and Merchants Bank of Long Beach, and I got the same answer; they turned me down.

It was through the SBA that they gave me a direct loan, but the company is still in business today. So I'm very grateful to the SBA.

Mr. **Torres**. Mr. Bruner, in that light, after having failed to have banks consider you, how did you happen to go to the SBA? What prompted you? Or who directed you? Or where did you read about it?

Mr. **Bruner**. Well, I was a member of CAMAC, the California Association of Minority American Contractors, which is a local association that has a nationwide association in Washington. This association helps the small minority contractors to gather the information that is necessary for them to do business.

They said, "Well, if you can't get money from the banks, why don't you go to the SBA?" They even had at that time people in their office that will help you prepare the forms, and do all the paperwork, and present all the papers to the SBA. In that manner, I got a direct loan.

Mr. **Torres**. So it was a service performed by your association which made information available to its affiliate members.

Mr. **Bruner**. Correct.

Mr. **Torres**. And that's how you got to SBA?

Mr. **Bruner**. Yes.

I would like to say that at that time CAMAC was funded by the Department of Commerce. They lost their funding, but it's still currently active, and I'm, as a matter of fact, the president of CAMAC at this time.

Mr. TORRES. I'm aware of the association. I'm aware of its early days and its rise to prominence as an effective organization providing these kinds of services to its membership.

Please continue.

Mr. BRUNER. I had some savings, but that was not enough to underwrite the start of the company.

At that time, the SBA gave me a loan that helped to get through the 2 years of the recession that we had a couple of years ago.

Currently, the second loan is carrying Caliagua through a period of expansion. My projections are for gross sales of $1.5 million for the current fiscal year compared with $.95 million the last fiscal year. It would have been impossible to attain this goal without the added operating capital provided by the new SBA loan.

In our specialized branch of the construction industry, cash-flow is a problem, because owner payments follow the actual construction by an average of 90 days, requiring large sums of capital to pay for labor and materials that are due right away.

Caliagua would not be in business today without the loans provided by the SBA.

We have been able to make timely payments of principal and interest, and we expect to be able to repay our second loan prior to its maturity.

We employ currently an average of 10 employees. Depending on the trades, we hire them on a daily basis, and I would say that most of our contracts involve 50 percent subcontracts.

Therefore, beyond the employees that we have on our payroll, we are indirectly paying for the other 50 percent of the subcontractors.

So if our projects of $1.5–$2 million for the year keep true, we are providing a lot of employment and a lot of economy and paying taxes.

I would like to see the loan program continue. Like one of our other panelists said, it's good for the people who come behind us.

Now I have the loans. I can say, "Well, forget it. I've got my $100,000. Let the new ones worry about it." But I think, as responsible citizens, we have to come forth and tell about the good things at the SBA.

I would like to address a question that Representative Hayes had for one of our panelists before. I think that there is a little bit of conflict between the surety bond agencies and the SBA.

I have found that as soon as I got an SBA loan, my surety bonding company dropped me. They told me, "Well, we can't give you any more bonds."

Mr. TORRES. Why did that happen?

Mr. BRUNER. Because when you sign the papers for the SBA loan, you have to say that they have first right of going after your collateral. But it can be worked out.

The way I did it with another bonding company that at least wanted to talk to me—they said, "OK, if your collateral is your house, and you gave your house as collateral, or whatever other moneys you had to the SBA, at least we would like to have first claim on the receivables from the work that you are doing."

I talked with my bonding company, and they said, "Oh, yes, that would be fine."

But there are only two or three bonding companies that understand the plight of the small business enterprise.

You know, when we are talking about a small business, a prime example—everyone knows Fluor is one of the biggest contractors in the United States. Fluor has never bid work that I bid up till this last year. I was surprised that my little company, here, Caliagua, last week bid a job with Fluor.

Fluor doesn't have any more contracts in the Middle East. They have come back to home and started bidding our work, which is fine. They bid $1.9 million for this project; they were about double the price that it went for.

But, you know, I think small business—it's important that they keep doing their business. If we let the big ones only, because they have the cash to get the bond, to get the loans, and so forth—I think that the SBA does the utmost to help the small business community, and I would like to see it continue doing that.

[Mr. Bruner's prepared statement, with attachment, follows:]

PREPARED STATEMENT OF OSCAR BRUNER, PRESIDENT, CALIAGUA, INC., ANAHEIM, CA

Name	:	Oscar Bruner
Name of Business and form of business organization	:	Caliagua, Inc. General Engieering Contractors Incorporated in the State of California
Address	:	3160 East La Palma Avenue, Unit C Anaheim, CA. 92806
Position and responsibility	:	President and General Manager
Number of employees	:	Ten (10)
Type of Loans	:	Direct Loan No. 1 on 1/17/80 $100,000 payable 7 years @ 7 3/8% Balance as of 2/85 is $31,623.15
	:	Direct Loan No. 2 on 1/4/85 $100,000 payable in 10 years @ 14 5/8%

A SBA Direct Loan is the only financing available as banks declined our applications for credit as our last fiscal year stated a negative net worth and the banks felt that the projections for the business could not be substantiated.

The SBA also has the 8(a) program to assist small and minority businesses - a program which is not available through the banking industry. The 8(a) program has increased our sales last year and will again this year.

Eight (8) years ago I found myself suddenly without a job. The company I had been working for the last thirteen (13) years ceased operations. I decided then to start my own firm continuing in the same construction specialty: water and wastewater systems.

I had some savings, but that was not enough to underwrite the start of a new company. At that time the SBA gave me a loan that helped to get through two (2) years of recession. Currently, this second loan is carrying Caliagua through a period of expansion. My projections are for gross sales of $1.5 million for the current fiscal year compared with $0.95 million the last fiscal year. It would have been impossible to attain this goal without the added operating capital provided by the new SBA loan.

In our specialized branch of the construction industry, cash flow is a problem. Because Owner payments follow the actual construction by an average of 90 days, requiring large sums of capital to pay for labor and materials that are due right away. Caliagua would not be in business today without the loans provided by the SBA.

We have been able to make timely payments of principal and interest, and we expect to be able to repay our second loan prior to its maturity.

Caliagua

Fluid Motion of Caliagua, Inc.

Profile

The Caliagua Philosophy

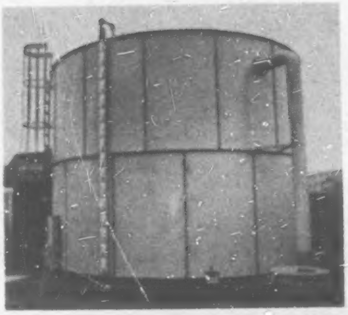
Fulfillment of the private and public sectors' water and wastewater needs has been a priority objective of Caliagua since we began in 1978. We will continue to provide cost effective water and wastewater management construction with high professional standards. To keep these standards, Caliagua's principal members are actively involved in the supervision of each project. If the assignment requires new construction or upgrading an existing system, personal attention to detail by experienced project engineers is always assured. We take pride in our ability to give nothing less than the best on every job. Caliagua has a wide scope of experience in the construction of various industrial plant facilities, water systems and wastewater systems. We continually meet water and wastewater management construction solutions in a timely manner.

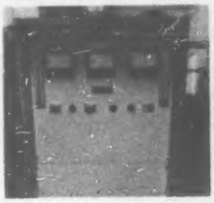
These honored values reflect Caliagua's philosophy and our guarantee of excellent craftsmanship.

Profile

Industry Services

Caliagua serves industry through mechanical construction services for many needs. We are licensed to build and install industrial boilers, cooling towers and monitor/control systems. In our role as general engineering contractors we make certain that no detail is overlooked. We also take great care in selecting the personnel for each job. The right people make the difference between a good job and Caliagua perfection. Our clients are satisfied time and again when they rely on Caliagua.





Profile

Water Systems

Proper water management by public agencies is a key concern for every community. An ever increasing demand for clean water and hydrogenerated power means that qualified contractors are in high demand. Caliagua specializes in public works projects with tremendous success. Our experience with pumping stations, hydrogeneration plants, well pumping plants, water storage systems and treatment facilities has earned us a sound reputation among our peers and especially our clients. Caliagua's founder alone has over twenty years experience in this area.

In public service we take the same care as with our industrial clients to give the utmost quality and performance.

Profile

Wastewater Systems

The earth's delicate balance of nature depends largely on ecological wastewater treatment. Our engineering and construction skills are put to the ultimate test in this arena of public service. From controlling storm drainage, building pump stations, servicing pilot plants to construction of treatment plants or reclamation plants, Caliagua takes the job seriously. We are proud of our ability to improve the quality of life through scientific and technological applications.

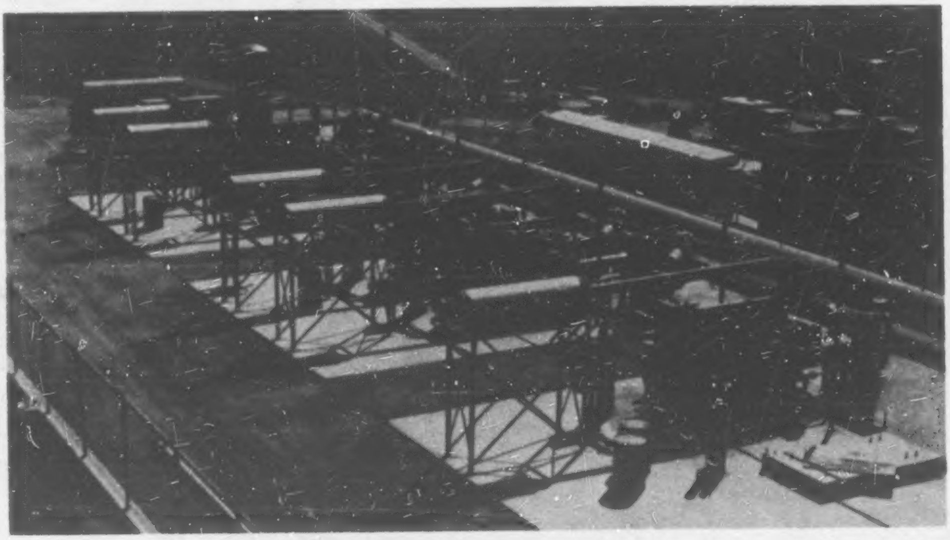
Profile

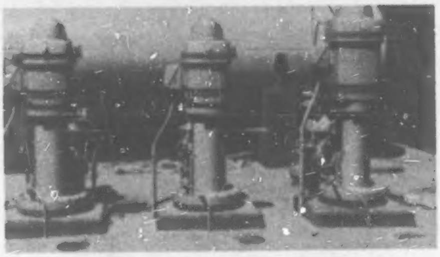
Caliagua's Founder

Mr. Oscar Bruner began his career as an engineer and general contractor in the army. He is an army engineering graduate with a Bachelor of Science degree. Mr. Bruner is also certified by UCLA as a Professional Contract Administrator. His more than twenty years experience in water and wastewater management construction makes Caliagua a company on the move. His selection of dedicated employees reflects his strong desire to achieve perfection.

As the 1984 President of the California Association of Minority American Contractors (CAMAC), he has provided opportunities for minority advancement in the skilled trades within the company.

Caliagua invites inquiries about our performance. The following list of clients may be contacted for references.





Callagua, Inc.
Partial Client List

Rancho California Water District
Santa Margarita Water District
El Toro Water District
City of Manhattan Beach
City of Santa Ana
Downey Unified School District
Marineland
City of Upland
Orange County Sanitation Districts
Suburban Water Systems
City of Fountain Valley
La Canada Flintridge Development Corp.
University of California - Irvine
Park Water Company
County of San Bernardino
Hi-Desert Water District
Pepperdine University
Irvine Ranch Water District
Mutual Water Company of Glen Avon Heights
Walnut Valley Water District
City of Sierra Madre
City of Ontario
United States Navy
City of Cerritos
Daon Corporation
Los Angeles County Waterworks - Malibu
Universal Studios
City of Buena Park
Rocketdyne
United States Air Force

Mr. TORRES. Thank you very much, Mr. Bruner, for your excellent statement.

We have also invited another construction-related witness to be with us here this afternoon. Mr. Victor Torres, the president of Victor P. Torres Constructors.

Welcome, Mr. Torres, to our congressional panel here. We'd like to hear from you.

TESTIMONY OF VICTOR P. TORRES, PRESIDENT, VICTOR P. TORRES CONSTRUCTORS, INC., COLTON, CA

Mr. VICTOR TORRES. Thank you.

My name is Victor P. Torres. I am president and chief executive officer of Victor P. Torres Constructors, Inc., in the Inland Empire area, which encompasses San Bernadino and Riverside to the east of the Los Angeles metropolitan area.

We principally do building construction, and we are recipients of a direct SBA loan almost 2 years ago and to date are current in our payments of principal and interest.

Not to restate any of the specifics that have already been mentioned here, primarily the importance of an SBA direct loan is tantamount to the area of working capital—the need for working capital and the hardship in terms of not having sufficient collateral to secure a standard SBA-guaranteed loan.

I think it's imperative for us, as examples of past recipients, to show the need for future SBA loans, because it is important. It is important to small business in general; it's important to my company in particular, because to date, since receiving the SBA direct loan, we have successfully performed in excess of $3 million in contracts, which, in turn, has provided employment for the local base.

We have been able to network with organizations to try and make these opportunities available as well, and I think it's important for us, as Mr. Bruner said, to continue the opportunity for other companies to benefit from such a program.

I am a member of the California Association of Minority Contractors as well as a board member of the National Association of Minority Contractors, and we're very much concerned with the need for working capital, and this is one form of it, certainly not the only form, but we're looking at other areas to try and generate sufficient working capital, but we can't possibly afford to lose the Direct Loan Program, because it is important to the survival and the continuing operations of many SBA—I should say many small businesses under the SBA, whether they be 8(a) or otherwise. It's very important.

I get calls every day from people asking me about loans and what to do, and I feel an obligation, not only as a recipient of an SBA direct loan but also as a representative of the various trade organizations, to explain to them what has to be done, and they're very much concerned.

Those people who don't have direct loans at the present time are very concerned, because they think that they have a viable business, and I'm sure they do, and in most cases it's just a matter of going through the maze of forms and departments and so forth that we have to go through. I think it would be a sad state of affairs if there wasn't the SBA direct program for them.

So not only as a direct recipient but also as somebody who hears these concerns every day from, if you will, our constituents, I think it's important for us to emphasize the need of the SBA Direct Loan Program and hope that it does continue, because it has helped me personally as well as others that I've networked with throughout the country in our trade associations.

[Mr. Victor Torres' prepared statement follows:]

PREPARED STATEMENT OF VICTOR P. TORRES, PRESIDENT, VICTOR P. TORRES CONSTRUCTORS, INC., COLTON, CA

Name: Victor P. Torres.

Name of business and form of business organization: Victor P. Torres Constructors, Inc.

Address of firm: 290 N. 10th St., Colton, CA 92324.

Your current position or responsiblity: President and C.E.O.

Number of employees: 12

Type of direct loan: SBA Direct Loan, amount: $118,000, interest rate: 14¾%, term of years: 7 years.

Banks not interested in this type loan—why: Collateral not sufficient.

Other SBA assistance you have received that banks/others would not have been able to offer: Business development expense.

Trade associations: National Association of Minority Contractors, Member of National Board of Directors, and California Association of Minority Contractors.

My direct loan allowed me to obtain needed working capital and equipment to perform on various projects. At the time of approval for the direct SBA loan, I did not have sufficient collateral to secure a guaranteed SBA bank loan.

Mr. TORRES. Thank you, Mr. Torres.

You mention in your statement that you were the recipient of an SBA direct loan—2 years ago, was it?

Mr. VICTOR TORRES. Yes.

Mr. TORRES. Could you tell me, within that period, up till now, how many people you have been able to bring on board in related jobs?

Mr. VICTOR TORRES. Well, in terms of a percentage, it would probably be threefold.

Initially we had 4 people, and now we have 12—permanent, that is. Of course, that fluctuates with regard to the various projects that may require a temporary person, although a professional person, such as a project manager or superintendent, for that particular project, but I'd say probably a 300-percent increase in permanent personnel to the local area.

Mr. TORRES. What was your initial loan for?

Mr. VICTOR TORRES. It was for $100,000.

Mr. TORRES. $100,000?

Mr. VICTOR TORRES. Yes.

Mr. TORRES. You say you're up to date on that?

Mr. VICTOR TORRES. Yes.

Mr. TORRES. Do you believe that the Government has received a fair return on its dollar from the amount that they had originally financed you for?

Mr. VICTOR TORRES. No question about it.

In terms of an interest rate, the interest rate on my particular loan is 14¾. The prime interest rate was, I would say, 17–18 percent at the time or thereabouts.

So I think they are making more than their share in interest, and I don't have any problem with that, but I think that the Government is more than being compensated for the loan repayment in terms of an interest rate that's being charged.

Mr. Torres. As well as the increased economy you've created, and taxpayers, and contributions to the Federal revenues and local taxes.

Mr. Victor Torres. Right.

Mr. Torres. Mr. Hayes, would you have any further questions of Mr. Torres?

Mr. Hayes. No. I just want to raise one with Mr. Bruner, if I can.

Mr. Torres. Certainly.

Mr. Hayes. I notice you have two loans. You were able to get two direct loans. Were both $100,000 each?

Mr. Bruner. Yes. The reason was that the $100,000 was down to $40,000 last year, $30,000 now, and I wanted to get another $150,000 loan, and they said, "Well, that will be detrimental to you. It will be better if we leave that old one and give you a new one, because overall now the interest is at 12 and the other was at 7⅜ so don't lose that one; keep that one." That was recommended by the SBA.

Mr. Hayes. The interest now is 14⅝ percent, almost double what you paid in 1980, I guess it was.

Mr. Bruner. Yes.

Mr. Hayes. I didn't quite understand what you were saying when you indicated that there had been some difficulty in getting a surety bond.

Mr. Bruner. Well, the problem is that I was with a bonding company, Reliance Insurance Co., through one of their local agents.

I was always getting my bid bonds and my performance bonds and all the bonds. All of a sudden, when I told them I was in the process of being given this second loan, they said, "Oh, no. If it's with the SBA—we would not mind you going out and getting an SBA-guaranteed loan that goes through a bank, but if it's from the SBA direct, no, because they've got first right to your collateral; so we don't want that." And they don't even want to talk about it. They just refused to talk about it, and I had to go to another insurance company.

Mr. Hayes. You confirmed what I had been saying. There are some difficulties in certain instances, in certain situations—particularly if you are trying to get a direct loan through SBA—of getting security bonds.

One of the other problems is, sometimes it depends on who you are, what your color is, and who you know, in some areas.

Thank you, Mr. Chairman.

Mr. Torres. Thank you, sir.

Gentlemen, Representative Hayes and I are most appreciative of your presentations today, the fact that you took time out from your own busy schedules to be with us, to shed light on what this congressional committee is all about, and that is understanding the nature of the way that the SBA has benefited you and others.

We would like to reiterate to you that these hearings will take place in other cities of our Nation as we begin to explore with other small business people like yourselves the benefits of what has been, in my estimation, and I'm sure I speak for Mr. Hayes, an effective and useful Federal agency that has championed and advocated for the small business man and woman in America.

We hope that these discussions and this testimony will serve our other colleagues in the House of Representatives to have them better understand the nature of what is now being proposed, that being the repeal of this very important agency.

So I want to take this moment just to simply thank you for being here today with us. Time has run out on us. We're having to meet a very tight schedule.

With that, I thank you again, and I would like to declare this congressional hearing session now being adjourned.

Thank you.

[Whereupon, at 2:15 p.m., the subcommittee adjourned, to reconvene subject to call of the Chair.]

SMALL BUSINESS ADMINISTRATION PROGRAM REVIEW

(Part 1)

SATURDAY, MARCH 30, 1985

House of Representatives, Subcommittee on SBA and SBIC Authority, Minority Enterprise and General Small Business Problems, Committee on Small Business,

Portland, OR.

The subcommittee met, pursuant to notice, at 10 a.m., in City Council Chambers, City Hall, 1221 SW., Fourth Avenue, Portland, OR, Hon. Ron Wyden (acting chairman of the subcommittee) presiding.

OPENING STATEMENT OF ACTING CHAIRMAN WYDEN

Mr. Wyden. The House Small Business Committee will come to order.

We are very pleased to be here today to have this important field hearing in Portland. It is a hearing of great importance, in my view, to the State of Oregon, because Oregon is a State chock full of small businesses.

You can walk down any main street in the State of Oregon, and what you see is one small business after another; and men and women are working, working their hearts out to make the marketplace work.

It seems to me the principal function of those of us in Government is to create a climate, an environment where small businesses can flourish.

Small businesses account for about 80 percent of the jobs nationally, and it is my belief that in Oregon, small businesses account for an even higher percentage than that 80 percent national figure that is used.

All our attempts to diversify Oregon's economy to move to more international trade, to move into high technology industries, to attract more tourism, to depend on a flourishing small business sector, and the administration has proposed the abolition of the Small Business Administration, and we are here today to examine exactly how small business would be affected in the State of Oregon.

Now, before we turn to our witnesses, let me make one specific comment as we open these hearings.

It is my view that the single best jobs program that we can undertake for small business in this country is to cut the Federal deficit.

The $200 billion Federal deficit is a body blow to the huge network of small businesses in this country. It is a principal factor in high interest rates which can be crippling to small businesses.

So, if we are going to cut the Federal deficit, which I think is the single most important thing, we have got to strengthen our small businesses in Oregon.

We have to look at ways to make Government programs work more efficiently and more effectively. We have got to figure out a way to do more with less.

And what I would like to hear from all our witnesses here today—those who have had good experiences with the Small Business Administration and those who have had experiences that are not quite so good—is their suggestions on how we can ensure that small business has a voice at the table of Government in the most cost-effective way.

We must cut the Federal deficit. To do it, we have to make sure every program is run in an efficient manner and so I am particularly anxious to hear the suggestions and the ideas of our witnesses on this point.

I am very happy that the first witness is someone who has made a remarkable record in small business himself. He has just this week shown again why, many of us consider him the "bionic man"—he seems to be everywhere at once. Just this week he was in Washington, DC, as well as working in Portland.

So, I am very pleased to be able to welcome our own Bud Clark. We very much appreciate your taking time on Saturday morning, Mayor, to come. I know that this is a subject of great interest to you, and I just appreciate your being here, and I look forward to your statement.

Mr. **Clark**. Thank you, Ron. I have got to admire you for doing this all the time and going back and forth. I am just getting back in the groove. I got used to the east coast, and now I am back here and I am not sure whether I am here yet or not, but my bed at home certainly felt good last night compared to all those other strange beds I was in.

Anyway, I admire you for doing this all the time. It is a difficult job. I understand you come back like every other week.

Mr. **Wyden**. It is interesting. People say that if they cannot find me, just call United Airlines.

Mr. **Clark**. OK. We have the same interests.

TESTIMONY OF HON. BUD CLARK, MAYOR, CITY OF PORTLAND, OR

Mr. **Clark**. This is a hearing on the Small Business Administration and the continuation of the 503 loan program.

I am here to convey as clearly as possible that small business is important, even critical to the health of our economy and to the quality of life in our city.

It is small business which has driven our recovery from the depression of the 1980's. It is the small business entrepreneur who is leading us in the diversification we must have in order to avoid the shock of future recessions.

Our basic, traditional economy is still in recession. We cannot continue to depend on timber and agriculture alone. We must build new kinds of industry and create new jobs. The core of such diversification is the small business.

I do not know if Phil Knight had an SBA loan when he was tinkering around with his waffle iron, but he was definitely a small business when he started the Nike Shoe Co., which is now a multimillion dollar concern.

Here in the Portland area, we have been doing rather well of late in attracting new business to our silicon forest. There are large companies, now and significant additions to our economy. But that does not change the fact that we need small businesses.

Portland needs small business. The country needs small business, and you never know which small business is going to make it big—or which small businessman is going to be elected mayor of a major city.

Our job, as a city, is to help business in any way we can, and to preserve our neighborhoods and to maintain our livability. To do that, we need all the tools we can get.

You are cutting budgets in Washington, and we are cutting budgets in Portland.

You are having a hearing to consider whether the SBA should be cut from the Federal budget. There is also talk of cuts in revenue sharing, block grants, UDAG grants, EDA funds, and the like.

I understand the reasoning behind the proposed cutbacks in Federal assistance. The Federal Government is in debt. Its debt drives up interest rates and ruins the economy of Oregon, because timber is dependent on housing, housing is dependent on interest rates, which are driven up by the Federal debt.

So, I agree with the attempts to cut the deficit. You should cut the MX missile rather than the SBA, the EDA, or the UDAG. If we had no Federal deficit, we would still have a healthy economy in Oregon and you might not be having this hearing today.

The point is that, as a city, we need all the tools we can have at our disposal so that we can help our citizens during this time when we are being weaned from the Federal trough.

The SBA is one of the tools that we have at our disposal. I am not here to tell you whether it works as well as it should. I am not even here to tell you that Portland depends on the SBA as a vital part of its economic development program. We probably do not make as good use of the SBA as we should, but we are taking steps to use it better.

What I would like to do today is to tell you how we use the tools you give us, in assisting small business development.

We use our HCD—Community Development Block Grant—funds in a targeted manner, so that the available funds can support as useful and significant a project as possible. We work in target neighborhoods providing low interest home improvement loans, street and park improvements, and technical assistance to improve neighborhood stability. This targeting, and the use of the funds as seed money, is an important part of the way we manage our funds wisely to achieve more than would be possible otherwise.

In economic development, we use our HCD funds and other funds made available through our Portland Development Commission to finance industrial expansion and the creation of new jobs.

Much of this industrial expansion is of a small business nature. We also finance new industrial startups. Whenever possible, we use our available loan funds as a part of other financing secured privately in order to meld into an interest package which is manageable for the owner, but which uses less of our available resources.

We have used EDA grant funds to increase energy efficiency in our housing stock. We are using UDAG money in a unique urban homesteading program.

I am not here to tell you about all the ways we use the Federal dollars we receive. I am here to tell you that even with all the creative ways we use and stretch the funds available, we are still not able to provide the assistance to small business that we would like to and that is needed.

Through the Portland Development Commission, we annually survey all small businesses in the area, to determine their needs, expansion plans, and the like. Our goal is to determine where problems exist and where needs are the greatest, before the problems become so great that we are unable to help.

This survey tells us that the needs of small business are greater than our ability to provide assistance. We have identified our problem areas and are taking steps to solve them.

The city of Portland, Multnomah County, and the east county cities are appointing a task force to determine the ways to revise and restructure our Economic Development Advisory Committee in a manner which will better serve our needs in the light of changing Federal priorities.

This is a first. It just happened while I was in Washington, and New York, as a matter of fact, and we are getting together with the other smaller cities in the county so that we can have perhaps a greater impact on small business and economic development in the area.

In Portland, we have determined that, while we do a good job of providing assistance to small industrial concerns, we do not have a proper means of assisting small commercial businesses.

We are appointing a local business assistance team to determine how we can best find ways to assist small commercial enterprises.

One of the areas we are looking toward is the use of the resources of the SBA in coordination with our local business assistance group.

It is understood that the city only needs to get involved in business assistance in cases where commercial bank financing is, for whatever reason, not available or not structured properly to be of use to the businessman.

This requires creativity on the part of the city—and care and handling. It also requires us to use every tool available to us.

Our record, with all the programs we manage, has been very good. Income earned from our loan programs is added back to the program, to ensure a constant program level.

Fiscal stability and program continuity are the goals of our programs. Small business is a vital and necessary part of our economy.

It is important to us that this hearing is being held here today. Continuing dialog between us and you in Washington, DC, in hopes of finding a solution, of finding something which works to the benefit of all is our goal.

And I would like to thank you for allowing me to be here today.

And I would also like to announce that I got this letter as I got back to my desk today. The George H. Atkinson Graduate School of Management in Portland is having a conference on entrepreneurship. They have this every year, and April 13 is the date of the entrepreneurial conference, but you have to register by the first, so I suggest that as many people get involved so we can get more entrepreneurs.

Also I would like to announce that we are very probably going to be using the funds that were left over from the campaign, which amounts to about $40,000 in encouraging young people to go into entrepreneurial programs, and get in to doing business, because we have lots of needs from brush removal, since we have the fire burnings.

Entrepreneurship is of vital interest.

Mr. WYDEN. Well, Mayor, thank you for an excellent statement.

And let me, if I might, just ask just a couple of questions, and I know that something like this is a reflection of your judgment as you come into office, rather than having been in office.

I gather right now that your principal concern just deals with the fairness issue. You are concerned about things like how there is money for the MX missile——

Mr. CLARK. That is right.

Mr. WYDEN [continuing]. And there is not money for the Small Business Administration.

Mr. CLARK. That is very true. They are shifting moneys away from things, and saying that—the point is that security, internal security is in many cases more vital than external security. I mean we have enough bombs throughout the world, and why are we shifting all this money toward defense projects when our internal economy is much better.

Khruschev said he was going to "bury us." He has not been able to bury us in economic stability because of our great vitality within this country, and that should tell us something.

Mr. WYDEN. And the second issue I want to explore with you a little bit—I gather even from reading your comments that your notion of the Federal role here is that it primarily should be a facilitator. We are not talking about in your view programs that allocate huge sums of money, but essentially ones for example on page 5 you talked about the SBA working in coordination with your local business assistance group.

That does not sound to me like something where Mayor Clark wants huge sums of money. What you are looking at is that you are essentially trying to coordinate resources. Is that——

Mr. CLARK. No, we are not worried about—we are going more toward self-reliance, and as a small businessman, I like that approach. I like being self-reliant, and I think the city should be that way, and stand on its two feet; but, in some cases the SBA has brought businesses back—made it so that it could expand, and they could not expand any other way.

And it gets those first entrepreneurs into the field of business so to speak. And in many cases, there are many guiding programs that the SBA has, that lets people solve problems—I mean they have the energy to work, and want to work, but there are a few tricks in there that they have not learned, and they learn from SCORE and other businesses.

Mr. **Wyden**. What, Mayor, do you hear from some of the groups that have been most concerned about their inability to get access to capital—minority business leaders, women's groups.

Do you see SBA playing a particular role that is helpful in terms of assisting those groups?

Mr. **Clark**. They could very well. As I said, I think we have been a little negligent in our ways of using it as fully as possible through PDC, but the Willamette East Side Project—I think they are going to speak later—and they have done a fantastic job in reaching out. We are going to have to emphasize that in the city of Portland because we have to get this recovery going.

We are targeting certain neighborhoods to that extent.

Mr. **Wyden**. That is a project, the Willamette Sight Project.

Mr. **Clark**. The Willamette Sight.

Mr. **Wyden**. That has SBA assistance involved.

The only other question I want to ask—I know there has been talk at the city level about developing some kind of revolving capital fund for small businesses. I have heard that discussed from time to time. Could you give us a little more detail on that, and how it might be affected by things going on at SBA?

Mr. **Clark**. Just in the starting up programs, and that is going to be largely private money, but hopefully we will tap any area that we can, including SBA, to fund that project, or to provide a pool of capital and perhaps assistance in management.

But we have a lot of assistance on the industrial level but very little with very small businessmen; and that is where the seeds are; they are the seeds that need to grow and blossom to grow big, and we have not done as well in the past, and the city has not done as well in the past, and that is where my administration wants to strengthen and broaden.

Mr. **Wyden**. As far as I am concerned, there are enough small business leaders in Government, and I think you are starting to pave the way to a different kind of approach, a problem-solving approach, and it is an exciting approach. I just very much look forward to having a partnership relationship with you where the Federal Government assists, rather than comes in and mandates and orders all kinds of very onerous new burdens for local government, and I think one area where this new partnership can pay off is small business.

Thank you for coming.

Mr. **Clark**. Thank you, Congressman. It is a pleasure and a privilege to be here. Thank you.

[Prepared statement of Hon. Bud Clark, mayor, city of Portland, OR, follows:]

PREPARED STATEMENT OF HON. BUD CLARK, MAYOR, CITY OF PORTLAND, OR

This is a hearing on the Small Business Administration, and the continuation of the 503 loan program. I am here to convey as clearly as possible that small business is important, even critical to the health of our economy and to the quality of life in our city.

It is small business which has driven our recovery from the depression of the 1980's.

It is the small business entrepreneur who is leading us in the diversification we must have in order to avoid ths shock of future recessions.

Our basic, traditional economy is still in recession. We cannot continue to depend on timber and agriculture alone. We must build new kinds of industry and create new jobs. The core of such diversification is the small business.

Stephen Jobs was tinkering around in his garage and he was definitely a small business when he started the Apple Computer Co. Now, it is a multi-million dollar concern. Phil Knight . . . fooling around with a waffle iron.

Here in the Portland area, we have been doing rather well of late in attracting new business to our silicon forest. These are large companies, now, and significant additions to our economy. But that doesn't change the fact that we need small business.

Portland needs small business. The country needs small business, and you never know which small business is going to make it big, or which small businessman is going to be elected Mayor of a major city.

Our job, as a city, is to help business in any way we can, and to preserve our neighborhoods, and to maintain our livability. To do that, we need all the tools we can get.

You are cutting budgets in Washington. We are cutting budgets in Portland. You are having a hearing to consider whether the SBA should be cut from the Federal budget. There is also talk of cuts in revenue sharing, block grants, UDAG grants, EDA funds, and the like.

I understand the reasoning behind the proposed cutbacks in Federal assistance. The Federal Government is in debt. Its debt drives up interest rates and ruins the economy in Oregon, because timber is dependent on housing. Housing is dependent on interest rates which are driven by the Federal debt. So, I agree with attempts to cut the deficit—I'd rather you would cut the MX missile than the SBA or the EDA, or the UDAG, but that's beside the point. If we had no Federal deficit, we would still have a healthy economy in Oregon and you might not be having this hearing today.

The point is that, as a city, we need all the tools we can have at our disposal, so that we can help our citizens during this time when we are being weaned from the Federal trough.

The SBA is one of the tools we have at our disposal. I'm not here to tell you whether it works as well as it should. I'm not even here to tell you that Portland depends on the SBA as a vital part of its economic development program. We probably don't make as good use of the SBA as we should, and we're taking steps to use it better.

What I'd like to do today is to tell you how we use the tools you give us, in assisting small business development.

We use our HCD (Community Development Block Grant) funds in a targeted manner, so that the available funds can be as useful as possible. We work in target neighborhoods providing low-interest home improvement loans, street and park improvements, and technical assistance to improve neighborhood stability. This targeting, and the use of the funds as seed money or to purchase materials for work accomplished by volunteers is an important part of the way we manage our funds wisely to achieve more than would be possible otherwise.

In economic development, we use our HCD funds and other funds made available through our Portland Development Commission to finance industrial expansion and the creation of new jobs. Much of this industrial expansion is of a small business nature. We also finance new industrial startups. Wherever possible, we use our available loan funds as a part of other financing secured privately, in order to meld into an interest package which is manageable for the owner, but which uses less of our available resources.

We have used EDA grant funds to increase energy efficiency in our housing stock. We are using UDAG money in a unique urban homesteading program.

I'm not here to tell you about all the ways we use the Federal dollars we receive. I'm here to tell you that even with all the creative ways we use and stretch the funds available, we are still not able to provide the assistance to small business that we would like to and that is needed.

Through the Portland Development Commission, we annually survey all small businesses in the area, to determine their needs, expansion plans, and the like. Our goal is to determine where problems exist and where needs are greatest, before the problems become so great that we are unable to help.

This survey tells us that the needs of small business are greater than our ability to provide assistance.

We have identified our problem areas and are taking steps to solve them.

The city, Multnomah County, and the east county cities are appointing a task force to determine ways to revise and restructure our EDAC [Economic Development Advisory Committees] in a manner which will better serve our needs in the light of changing Federal priorities.

In Portland, we have determined that, while we do a good job of providing assistance to small industrial concerns, we do not have a proper means of assisting small commercial businesses.

We are appointing a local business assistance team to determine how we can best find a way to assist small commercial enterprises.

One of the areas we are looking toward is the use of the resources of the SBA in coordination with our local business assistance group. It is understood that the city only needs to get involved in business assistance in cases where commerical bank financing is, for whatever reason, not available or not structured properly to be of use to the businessmen. This requires creativity on the part of the city, and care and handling. It also requires us to use every tool available to us. Our record, with all the programs we manage, has been very good. Income earned from our loan programs is added back to the program, to insure a constant program level.

Fiscal stability and program continuity are the goals of our programs. Small business is a vital and necessary part of our economy. It is important to us that this hearing is being held, here today. Continuing dialog between us and you in Washington DC in hopes of finding a solution—of finding something which works to the benefit of all—is our goal.

Thank you for allowing me the opportunity to testify today.

Mr. WYDEN. See you soon. Our next witness, Ms. Chrys Anne Martin.

Is Ms. Martin here?

[No response.]

Mr. WYDEN. Well, we will just move along.

Mr. John Titley?

Mr. TITLEY. Yes.

Mr. WYDEN. Mr. Titley is with the Service Corps of Retired Executives.

If it is acceptable with you, Mr. Titley, we will make a full copy of your prepared remarks a part of our record, and if you would like to summarize and highlight some of your key concerns, I think it would be helpful.

Mr. TITLEY. Thank you very much, Mr. Chairman. I have a revised statement that I would like to present to you.

TESTIMONY OF JOHN H. TITLEY, REGIONAL REPRESENTATIVE, SERVICE CORPS OF RETIRED EXECUTIVES [SCORE], ASHLAND, OR

Mr. TITLEY. First, let me identify myself. My name is John Titley. I am a resident of Ashland, OR. I am the regional SCORE representative for region X, which includes Oregon, Washington, Alaska, Idaho; I am a member of the SCORE board of directors; I am treasurer of the SCORE Association.

SCORE is very pleased to have the opportunity to respond to your committee's invitation to hear from those who are concerned about funding for the Small Business Administration.

SCORE is an independent, voluntary, nonprofit association, incorporated in the District of Columbia for educational and charitable purposes. From its inception in 1964, SCORE has experienced extensive and sustained growth. SCORE includes within its members, not only retired executives, but actively employed individuals in its ACE Program.

In 1984, SCORE volunteers counseled 154,000 individual clients. This does not include the thousands of persons who sought and received advice by telephone or other walk-in activities from the various clients.

During the 20 years of SCORE's growth, its volunteers have counseled more than 1½ million small business clients. SCORE volunteers receive no compensation for their participation in SCORE activities.

In 1984, all SBA management resources counseled a total of 193,000 individuals. SCORE accounted for 62 percent of this total. Total SBA training units numbered 11,911. SCORE accounted for 21 percent of these.

And yet SCORE's budget represents only 8 percent of $25 million of SBA management assistance funds.

To bring this record of service to the small business community closer to home, in 1984, region X's 11 chapters, which have 5 percent of the SCORE membership, provided confidential counseling to over 14,000—in fact, 14,390 clients.

Mr. WYDEN. Can I interrupt you?

Mr. TITLEY. Yes, sir.

Mr. WYDEN. How many of those small businesses were in Oregon?

Mr. TITLEY. In Oregon, approximately—of the 14,000 that were counseled, approximately 5,000 were in Oregon, and I have numbers specifically on Oregon that I thought you would be interested in.

Mr. WYDEN. Thank you. Excuse me for interrupting you.

Mr. TITLEY. That is quite all right.

In addition to the clients that we counseled, we also put on 105 workshops attended by over 6,400 people, and the cost per client for this activity to the Small Business Administration amounted to $8.04 per client for the region.

I think this record of accomplishment justifies SCORE's claim that it is the most cost-effective resource available within the Small Business Administration for providing management assistance and training to the small business community.

Now, with respect to Oregon, I know that you have a parochial interest in this regard. SCORE has five chapters in the State of Oregon—one in Portland, one in Salem, one in Eugene, one in Bend, and the southern Oregon chapter which covers the area from Coos Bay and Roseburg south into northern California, and then east in Klamath and Lake County.

In the first 4 months of this fiscal year, these 5 chapters of some 200 members have counseled over 900 small business clients.

If you have the time, I would like to give you one example of which I have personal knowledge of the depth of SCORE counseling.

About 5 years ago, a man and his wife moved into southern Oregon and sought the help of a SCORE counselor and seeking an opportunity to start some sort of a retail business.

A number of these businesses were jointly evaluated over a period of several months, and found to be unsatisfactory. The couple on their own became interested in the processing of soybeans into tofu, and were encouraged to attend a number of technical seminars after a preliminary market survey showed that the current sources of supply in the area were too distant from the user to be cost effective.

The counselor directed development of a business plan to identify capital needs and breakeven points. Later on another counselor was brought in who was an expert in food processing, to establish production controls and to assist in getting the necessary Government approvals.

About a year and a half later, after starting their business, they were brought into the Small Business Institute Program. In this case, the students were able to target their market areas for expansion and make valuable changes in their cost system.

Within the past year, this company has added five new products. To finance the expansion, they asked the SCORE counselor to help them develop a new business plan, which he and they together reviewed with the assistant manager of a local bank. The loan being sought was approved in 3 days. This company has now gone from a Mom and Pop operation to a company that employs six full-time employees and distributes throughout southern Oregon.

A success story such as this shows what can be done with a motivated client and a dedicated SCORE volunteer. Fortunately, this is not an isolated case but one which is repeated over and over across the country, year after year.

I will be happy to answer any questions you might have.

Mr. Wyden. Well, thank you, and I do have some questions.

First of all, where would people go for this kind of counseling if you were not there? In other words, if your services were not available, where would they turn to?

Mr. Titley. There is, to the best of my knowledge, no other source that provides the diversity of information at a single location that is available through the SCORE Program.

Mr. Wyden. Now, my understanding is that under the administration proposal some of the functions of the Small Business Administration might be transferred to the Department of Commerce.

Mr. Titley. That is correct, and SCORE is one of the programs that had that recommendation. However, after we have examined the structure of the Department of Commerce, we find out that they are ill-equipped to provide the same level of support that the SBA has been giving, because they have a sufficiently restricted number of field offices, whereas now we would make use of many of the office facilities within the SBA. Their staff is unfamiliar with the program, and the funding that was proposed to be transferred to the Department of Commerce is totally inadequate to support programs that are now being administered.

Mr. Wyden. What is your own background? Were you in private business?

Mr. Titley. You could say I am a professional manager. By education, I have a bachelor of science in business from UCLA, and an MBA in business from the University of Southern California.

I spent 35 years in the aerospace business in almost every area of company management except engineering and accounting.

Mr. WYDEN. And how many of you are there in Oregon? I knew that there were 5,000 businesses that were getting counseling.

Mr. TITLEY. There are 208 SCORE counselors throughout the State of Oregon.

Mr. WYDEN. And their backgrounds? They may be retired accountants or lawyers or business people?

Mr. TITLEY. That is correct.

The man that is sitting next to me, my district representative, headed up the research department for a major glass company and then operated his own high-tech electronics firm before retirement.

Mr. WYDEN. If the administration's proposal were to go through, what do you think the effects would be generally on small business?

Mr. TITLEY. I think it would have a very negative effect. As I pointed out earlier, well over 90 percent of the business activity in Oregon is small business, and most of these people are ones that run companies with less than 10 employees.

And the thing that we find is lacking, more often than not, is not a question of money, but the question of understanding basic business principles that allows them to manage their companies profitably.

And the only resource that I personally feel would be available other than our 4-year college system is the SBA resource programs in management assistance that fill this need.

Mr. WYDEN. I am going to ask you a question that I am going to ask every one of our witnesses, that I touched on earlier. I do believe that the best single program out there for our small businesses is to cut the Federal deficit, because cutting the Federal deficit can take some of the pressure off interest rates; it makes it easier to export—I mean high deficit hardens the value of the dollar. It makes Oregon small business exports tougher and makes imports more attractive, so there is nothing as important as small business as cutting the deficit.

Given that, and given that as our overriding priority, we have got to save money in every program—this one and every other one.

What suggestions might you have to make the Small Business Administration work in a more efficient, cost effective way so we can save some dollars and take some of the pressure off the Federal Government?

Mr. TITLEY. That is a question that I have often thought about. I think one of the things that needs to be considered in their organizational structure that actually would make them more effective is having an ability, which they do not seem to have at this time, to make better known to the small business community what services they provide.

Now, one of the unfortunate things when you talk to small business people is that most of them do not know what the SBA has to offer or what SCORE has to offer; and there needs to be, I think, improved communication, maybe through TV and radio, that tells the story of what services are being offered, and I think that would be a very cost-effective use of the facilities.

Mr. WYDEN. Let us explore that one, because I have found that many small businesses do not know about the availability of some of the assistance.

Would it not be possible to do some free public service programming by the Small Business Administration to try to get the word out?

I am not aware that such programming goes on.

Mr. Titley. There have been some small business tapes that have come out of an operation that I think they have back in Ohio; but they are too few in number.

We found that the radio stations, when we had them made available to us, were most willing to put them on the air. There was just a lack of adequate material for that purpose.

Mr. Wyden. In addition to better ways to get the information out, is there any other area where it could be made to make it more efficient?

One of the things that I always ask about are these regional offices. We found in many areas of Government service very often local offices are reporting to regional offices that really have no natural relation. For example, in Customs services, we would end up reporting to areas thousands of miles away until recently when we got legislation passed to create a Columbia Snake River Customs District.

Is there any kind of ideas like that you might have to save some money there?

Mr. Titley. Well, I am not sure they are saving money. I think one of the more effective things that might be accomplished is taking maybe half of the 1,300 people who are sitting in Washington and putting them in the field where they can deal more directly with the small business community.

Mr. Wyden. Well, three cheers for you. I think that is a first-rate suggestion, and it is probably true of a lot of areas, and I will follow up on that one for you, sir, because I think that is something I have heard elsewhere as well, and a good suggestion.

Any other things come to mind?

Mr. Titley. No; I just want to thank you for the opportunity to meet with you and see you again.

Mr. Wyden. Well, thank you for your dedication.

I want to ask one other thing actually. Now, your people, all the dedicated people in SCORE get your gas mileage? And that is really all you get?

Mr. Titley. We get our out-of-pocket expenses. We are reimbursed for our mileage; we have the opportunity of using free postage when working with our clients. We get long-distance telephone calls reimbursed; and if we travel overnight, on a trip like this, we get per diem.

Mr. Wyden. Thank you.

Mr. Titley. Thank you.

[Mr. Titley's prepared statement follows:]

Prepared Statement of John H. Titley, Regional Representative, Service Corps of Retired Executives [SCORE], Ashland, OR

Mr. Chairman: My name is John H. Titley, from Ashland, OR. I am the Regional Representative of the Service Corps of Retired Executives Association, known also by its acronym of SCORE.

Our organization is pleased to respond to your Committee's invitation to hear from those who ~~are concerned~~ about the funding for the Small Business Administration during fiscal 1986. The SBA is authorized by the Small Business Act to sponsor and provide financial and other support to SCORE. This continuing support, which is included within the SBA appropriation, is essential to the effectiveness of the SCORE program and to it's capacity for growth.

SCORE is an independent, voluntary, non-profit association, incorporated in the District of Columbia for educational and charitable purposes. It consists now of 11,900 volunteers, working out of 391 member chapters located in cities throughout the United States and its possessions. These well-qualified volunteers give their unpaid time and expertise, to counsel persons on problems of starting, maintaining and expanding their small businesses.

SCORE is self-governing, with 10 regional representatives elected by the chapters within their respective regions, who serve as the SCORE board of directors and who elect in turn the national SCORE officers. There is a national SCORE office in Washington, DC headed by an executive director, which provides guidance and support to the SCORE chapters.

From its inception in 1964, SCORE has experienced extensive and sustained growth. SCORE includes within its members, not only retired executives, managers and professionals, but also actively employed individuals enrolled in its Active Corps of Executives (ACE) component, which represents 20 percent of the SCORE members.

In 1984, SCORE volunteers counseled 154,000 individual clients. This does not include the thousands of persons who sought and received advice by telephone from SCORE members, at chapter offices, or office walk-ins on whom no detailed records were made. SCORE Members, in 1984, conducted 2500 pre-business workshops and Special Subject Seminars attended by 98,000 persons. Our volunteers were also active in promoting business and community awareness of SCORE and SBA programs. They further collaborated with other management assistance resources, for small businesses, such as: the Chamber of Commerce, and participated in trade shows and other events oriented to small business.

In 1984, all SBA management resources counseled a total of 193,279 individuals. SCORE accounted for 62 percent of this total. Total SBA training units numbered 11,911. SCORE accounted for 21 percent. The SCORE budget of $2.12 million represents only 8 percent of the $25,420,000 budgeted for all SBA/MA resources.

SCORE is the most cost effective managment assistance to the small business community. The average direct cost per client counseled in 1984 was $13.01.

During the 20 years of SCORE growth, it's volunteers have counseled more than 1,500,000 Small Business clients. SCORE volunteers receive no compensation for their participation in SCORE activities. They are reimbursed for approved travel expenses. All individual client counseling provided by SCORE is "free of charge." The most nominal charges are paid by work-shop attendees, to cover costs.

The Small Business Administration has funded SCORE through the years. This is most fitting and proper. The SBA is the key Federal agency entrusted by many laws, with fostering and promoting small business development and strength, so essential to our economic well-being. SCORE's activities directly support and extend these Federal Government responsibilites in the area of management assistance given to small business.

Because of this intimate inter-relationship, Federal tax-payer moneys are appropriately given and used to support SCORE operations. With SCORE's minimal expenses and its cost effective, successful volunteer programs, Federal Government support should be forthcoming to permit SCORE to expand greatly needed service to the small business community. The administration, with its recommended abolition of the SBA, would continue SCORE in Department of Commerce at its full current appropriation for fiscal 1986.

We, in SCORE, are here today to seek congressional help in sustaining the effectiveness of the SCORE programs. This can be done, basically, in two ways. One method is by continuing SBA with sufficient funding to maintain an effective field structure and administrative support for the "in kind" services which SBA provides SCORE. The other is to make sure that SCORE receives from SBA the total moneys appropriated to SBA/MA be disbursed for SCORE activities.

Again, addressing the first point—that of sufficient SBA funding. With SBA sponsorship and support of SCORE over the past 20 years, has come an intimate relationship between the two. SCORE operates through it's volunteers in local chapters. These chapters are grouped administratively into districts and regions, which are the same as those in SBA's field structure. SBA field offices are allocated funding and property, to use for SCORE. Planning and distribution of funds are shared on all levels, between SBA and SCORE officials. In operation, however, SBA controls most allocation and funding availability.

Through the years, SBA has provided many supportive services to SCORE, which are essential for its very existence. Most come through the SBA field organization. They include:

1. Office space. Each SCORE chapter needs an office area, in which to conduct its business properly; e.g., telephone and meet with clients, maintain client and member records, hold chapter meetings and prepare workshop materials. Eighty-eight SCORE chapters are housed in SBA field offices. Many others are in different Federally-owned or rented space, or shared in Chamber of Commerce offices, for which SBA provides some reimbursement.
2. Office furnishings, reproduction, other equipment and supplies. These essentials are obtained through SBA in kind or by reimbursement.
3. Telecommunications equipment and postage. SCORE chapters located in SBA facilities have access to the Federal telephone system and computers, as does the National SCORE Office. Federal mail system privileges are provided for SCORE use.
4. Publications. SBA provides SCORE great quantities of SBA publications for distribution at its many work-shop sessions and individual counseling. These are vital to successful operations.

We, in SCORE, have not been provided the costs to SBA for these indirect services, so essential to SCORE's viability. They are included within the types of funding for these purposes, appropriated to SBA. We note, for instance, that if an SBA field office which houses a SCORE chapter is closed, alternative SBA funding is necessary for the above described support services, in order to maintain that chapter's public services.

We move to the second point. SBA has funded SCORE in the amount of $2.12 million for each of the past 6 fiscal years. The same amount has been requested for SCORE for fiscal 1986, as part of the Department of Commerce appropriation. If Congress continues SBA, presumably the same amount will be included in the SBA appropriation for SCORE in fiscal 1986.

This $2.12 million is intended for use, as follows:

1. To reimburse the SCORE volunteers for travel expenses incurred in the regular course of their activities. These moneys predominantly pay for SCORE member visits to counsel individual clients on site, or at SCORE offices, and for travel to work-shop meetings. They are also needed for basic travel for SCORE membership training and operational meetings. They constitute about 66.3 percent of the $2.12 million. SBA allocates and disburses this money through it's field structure, to SCORE chapters and officers.
2. To pay the clerical support expenses of certain SCORE Chapters. In recent years, SBA asked SCORE to administer these expenses through SCORE's hiring independent contractors. SBA is, thereby, relieved from using its own employees. However, these funds are so limited that only part-time clericals are engaged by a limited number of Chapters. SCORE gets these moneys from SBA under a SBA-SCORE grant. This accounts for 20.6 percent of the $2.12 million.
3. To pay the direct expenses of the national SCORE office in Washington, DC. This office provides management help, continuity and other support to the SCORE organization.

It houses SCORE's only "paid personnel." Its executive director, an office manager and a secretary. It is also manned by three SCORE volunteers, who come to Washington for rotated terms, heading up specialized areas; e.g. International Trade, Membership and Training, Publicity and Public Relations. Their subsistence expenses in Washington and other NSO expenses, are paid under the SBA-SCORE grant. SCORE's two legal counselors are volunteers, who receive logistical support from the national SCORE office. The cost of operating the national SCORE office is 13 percent of the $2.12 million.

We have two major points on the moneys appropriated to SBA for SCORE programs.

First, SCORE's current ability to increase its effective services to the small business firms facing critical problems of survival, and the thousands of persons considering new, or expanded, business ventures, is limited by the amount of SBA funding. There is an increasing market out there, for SCORE, which we cannot reach. Our funding has been frozen for 6 years—and another such year has been proposed.

The growth of healthy, competitive small businesses means more jobs, greater sales of goods and services, increased revenue, Federal, State and local—and an expanded economic base. SCORE people, in the best American tradition, are eager to volunteer their help to others in their home communities. We stress the quality of counseling, as well as it's availability—when needed. To obtain high quality, SCORE attempts to recruit only successful business and professional persons. To maintain the high level of service, continuous member training is carried on at both the chapter and district level. Clients, also, are spot-checked on the results of counseling.

Non-productive, or unsatisfactory members, and chapters are eliminated. Recruiting is an on-going effort. With but small increases in our most modest budget, SCORE could better its recruitment of excellent members and the growth and effectiveness of it's needed services.

In this untimely period, however, we are not proposing additional funding.

Second, despite the unique cooperative working agreement between SCORE and the SBA, it has been our experience, regrettably, that funds needed and intended for SCORE operations, frequently do not reach us. This seems to be inherent in SBA's decentralized control and disbursement of funding through its field managers. It shows up mainly in their withholding of moneys for the travel of our volunteers, for counseling service and for training meetings. This travel is the heart of SCORE's operation. Cutting, or mismanaging it, or diverting it to other SBA uses, frustrates even more our ability to deliver effective services. SCORE should receive, each year, the full level of funding justified and intended for it's use.

We propose, therefore, that for SCORE's full protection and achievement of its programs, the Committee write into the Appropriation Act, at an appropriate place in the funding for SBA, the following language:

"Provided, however, that no less than $2.12 million shall be made available to the Service Corps of Retired Executives Association for travel, clerical support, and the National SCORE Office."

Alternatively, any other means to this end will, of course, be acceptable.

Mr. **Wyden**. Well, let's see whether Ms. Martin has arrived.

[No response.]

Mr. **Wyden**. Still no sign.

OK. The next panel will be the panel dealing with the Certified Development Company 503 Program: Mr. Martin Loring, River East Progress; Mr. Stan Amy, Nature's Food and Tool; Mr. Craig Keeler, American Hardwood; Mr. William Moore, Moore Lithographic; Mr. Gary Wooden, Delta Engineering & Manufacturing.

Why don't you gentlemen all come forward?

Gentlemen, thank you all for coming. Why don't we begin with you, Mr. Loring, and if we could, just in the interest of time, I will make a copy of any prepared remarks that you gentlemen have a part of our record. If you could, just highlight some of the concerns that you have, and particularly, as I asked Mr. Titley, your ideas for how to do more with less.

I think it is central to this whole debate, and I very much want to hear your suggestions on that as well.

Mr. Loring, let us begin with you.

TESTIMONY OF MARTIN W. LORING, EXECUTIVE DIRECTOR, RIVER EAST PROGRESS, INC., PORTLAND, OR

Mr. **Loring**. Thank you, Chairman Wyden. I also want to thank Mr. Powers, Mr. Sobota, SBA officials, and guests for this hearing today.

Also when you get back to Washington, please thank Chairman Mitchell for arranging this and the other hearings he has held around the country on the Small Business Administration. This is a critical issue that needs to receive the kind of testimony you are collecting today.

Mr. **Wyden**. Well, let me just interrupt you. I am very pleased that you brought up Chairman Mitchell. No one has done more to fight for the rights of small businesses, in my view, than Chairman Mitchell; and of course, our very capable staff, Mr. Powers and Mr. Sobota both coming out on fairly short notice for this hearing shows their commitment as well.

And I particularly appreciate it that you have singled out Chairman Mitchell for those remarks.

Mr. LORING. I am Martin Loring. I am the executive director of River East Progress, Inc. We are a private nonprofit local development company that was certified by the Small Business Administration to make what they call SBA 503, or Certified Development Company Program loans.

My job here today really is to introduce the stars. We have representatives from 4 of the 28 businesses that we have been able to serve, and I think their story is the critically important one.

They can tell you firsthand whether or not the 503 assistance that they have used has been beneficial and the effect that it has had.

Please do allow me a few introductory remarks.

River East is a creature, 1 of 541 such companies around the Nation that have been created as a result of 503 legislation that Congress enacted. We are a local group of business community leaders—black and white, male, female, Asian, Hispanic; small business owners, lawyers, accountants, bankers—people who came together because they believed that small business needed more financial options.

They believed so much in that premise that they capitalized our little development company with their own funds.

With those funds, assistance from the city of Portland, both initially and ongoing—both financial and guidance, and with some assistance from our local Third District Congressman in technical details——

Mr. WYDEN. I have heard of him.

Mr. LORING. Yes; we were able to get certified, in October 1982.

Since that time, we have been working with people such as those on the panel, trying to assist as many small businesses as we can, to expand.

I trust that whatever else separates us, we are all united in the belief that the expansion of small- and medium-sized businesses is critical to the economic health of the Nation.

As you have pointed out, Mr. Congressman, they provide about 80 percent of the new jobs that are created in the economy. They also have higher productivity rates than large businesses and are responsible for many of the advantages in technology that we see.

They do have problems. Many fail. One reason for this failure in addition to the management help that this SCORE gentleman preceding us mentioned, is the lack of access to capital, particularly long-term capital with which to purchase the means of production: Land, buildings, machinery, and equipment.

Small businesses find themselves disadvantaged in comparison to their Fortune 1000 brethren. Large businesses have many financial options: long-term debt—bonds, venture capital, private placements; the equity markets. These really are not available to small businesses. Small businesses rely on commercial banks, and I am not here today to criticize commercial banks—they do a good job; but they are regulated institutions, and they operate within limits that work against small business clients.

The banks are essentially short-term lenders, and even then often float their rates today. This increases risk to small business clients.

Businesses invest in fixed assets in order to grow and increase employment, but that very growth increases their need for cash, or elements of working capital, inventories, and receivables.

So, unless they can borrow most of what that costs, and pay it back over the period of time during which they are going to use those assets, they are going to be strapped for cash, and that is really the need that the 503 Program was created to address, called the long-term credit gap.

That is what we help fill. All the clients that we serve are healthy, profitable small businesses that banks want to serve but there is something about the transaction—either the amount of money the banks can lend, or the term that is available, or the interest rate that makes the transaction infeasible for the small business. We are able to step in and help provide up to 40 percent of what the project is going to cost in the second position, for 15 or 20 or 25 years at a below-market rate of interest, currently about 12.5 to make projects feasible that otherwise would not.

As I mentioned there are about 550 such companies in the United States. Since October 1980, they have been authorized to sell just over $750 million worth of debentures for just under 4,000 small businesses.

Locally, in the metropolitan area in which River East works, we have been authorized to sell 28 debentures for just about $6.2 million.

These 28 businesses—our participation, $6.2 million—is part of a total investment bank debt from 14 different banks and savings and loans, and additional equity invested by the owners, represents over $16 million invested in the local economy, well over 500 jobs either created or saved.

Perhaps—in all those 28 approved, 23 have been closed—and let me make one statement about those closed loans. To me, perhaps the most important thing is to date every one of those 23 closed loans is paying as agreed on the first business day of each month.

There has not been even a delinquency much less a default. I realize that you and Congress face a horrible dilemma. How do you save needed programs that are doing the job that you created them to accomplish while reducing the deficit. In the case of the SBA 503 Program and a related program that we will not discuss today, the Small Business Investment Company Program, you have an alternative that accomplished both aims. According to the Office of Management and Budget, those two programs together require a Federal outlay of $715 million per year.

I am not sure that I agree with that number, but that is the number. This is so under the revised accounting rules that Mr. Stockman has sold this year. This is so because the Department of the Treasury has never allowed the Federal Financing Bank to sell our debentures to the private capital markets as Congress originally intended.

Therefore, they are counted as a direct outlay when SBA was conceived of as merely being a facilitator, guaranteeing our debentures which eventually would be sold to private investors.

So, in the case of the 503 Program, you have the opportunity to help the Department of the Treasury and its creature the Federal Financing Bank, see the wisdom of Congress' original intent to sell those debentures to the private capital market and eliminate that as a Federal outlay.

Mr. **Wyden**. Go back over that, because that is exactly the kind of thing that I think we are interested in.

You are talking about a way that we can actually reduce Federal expenditure for this 503 Program; is that right?

Mr. **Loring**. Yes.

Mr. **Wyden**. Please go back through that. I want to make sure that there is no confusion.

Mr. **Loring**. Now, the 503 Program—and I very easily outstrip my technical knowledge of how the Federal budget is put together and how one accounts for projects—but the 503 Program was created as an off-budget financing program.

This year, the year ending September 30, the Small Business Administration was granted $450 million of guarantee authority. They could guarantee up to $450 million in debentures nationally.

Those debentures with that guarantee are sold to the Federal Financing Bank. The Federal Financing Bank, in turn, was supposed to have those bundled up and sold to private investors.

Mr. **Wyden**. That is what is not being done?

Mr. **Loring**. No; the Federal Financing Bank buys the debentures and holds them.

Mr. **Wyden**. Just holds them?

Mr. **Loring**. Yes.

Mr. **Wyden**. OK.

Mr. **Loring**. Now, they are very good assets. They are saying that, "Gee, why should we sell these? These are assets of the U.S. Government, and they are very good loans."

Again, our default rate is zero percent in the $5 million worth of loans that have been closed in these three counties.

Nationally, $338 million worth of loans have been closed, and the current on-time rate is over 91 percent, so they are very good loans. But what the Office of Management and Budget is saying this year for the first time ever is that since the Federal Financing Bank is not selling the debentures, it is a tax outlay—if not for SBA, for the Government as a whole.

Mr. **Wyden**. And your recommendation then is for the Federal Financing Bank—that is what it is called actually, FFB—to sell these debentures to the private sector and that way we could reduce the Treasury outlay?

Mr. **Loring**. Absolutely.

Mr. **Wyden**. And also you believe that is consistent with what Congress intended?

Mr. **Loring**. Yes.

Mr. **Wyden**. And then the Federal outlay will simply be what it costs SBA to administer the program, or whatever successor agency would administer it, plus whatever the default rate would be in the future.

It is a loan program; there is risk, but it is a very low rate of risk.

Excuse me for interrupting you. I just smelled that there was a way to really get at a reduced Federal expenditure, and that is the name of the game.

Mr. LORING. That is all that we are here for. And we believe in what you are saying. High interest rates are no friend to small business.

So, please support it.

On the other side, Senator Weicker has a bill, Senate Bill 408, that would continue the 503 Program; and he is aware of the need to encourage the Federal Financing Bank to sell these debentures. We would encourage you to support that.

The four small businessmen on the panel—three, and I hope the fourth walks in—are a small but important part of the 503 success story.

Unlike what you see in the media, the businesses that we work with and these four are all low-technology businesses, but they are very successful, and they are successful because they apply high-technology approaches to problem solving, management and control to their businesses.

Has Craig Keeler arrived?

Mr. WYDEN. Why don't we just proceed with these gentlemen here?

Mr. LORING. I wish Craig were here. Craig built probably the first new plywood mill built in Oregon in 20 some years. It would have been nice to have been able to talk to him about it.

He was to be here. The project created some 65 jobs out in Washington County.

We do have Gary and Carole Wooden from Delta Engineering. They started a custom mill fabricating business in 1979, also in Washington County, and have recently gone through a major expansion, which I would like Gary to tell you something about.

We are very, very proud of them, and they are growing like topsy.

Our debenture was $½ million in a roughly $1½ million project, but it has already created 51 new jobs, and these are very, very good, high-paying, full-time jobs that are needed in the economy. I would like to introduce Gary Wooden.

[Mr. Loring's prepared statement follows:]

PREPARED STATEMENT OF MARTIN W. LORING, EXECUTIVE DIRECTOR, RIVER EAST PROGRESS, INC., PORTLAND, OR

Thank you Chairman Wyden, Mr. Sobota, SBA Officials and guests. Please also thank Chairman Mitchell for scheduling this and other hearings on The Small Business Administration around the country.

I am Martin Loring, Executive Director of River East Progress, Inc. River East is a private non profit local development company. It was formed in January of 1981 in response to the invitation of Congress (through the SBA) to obtain certification to make loans through the SBA 503 program.

This morning it is my priviledge and pleasure to introduce to the Committee the owners of four small businesses that have used the Small Business Administration's Certified Development Company (or 503) Program to grow and increase employment. They can tell you first hand whether or not such financial assistance is needed by the nations small businesses. But first, please allow me a few introductory remarks about River East Progress, Inc., and the 503 Program.

River East is a membership company of business and community leaders. Members are small business owners, government officials, lawyers, accountants, bankers and neighborhood representatives.

They are male and female, black, white, asian and hispanic. Not only do they contribute of their time, but they believed enough in the program to capitalize River East with their own funds -- a true public/private partnership. With these funds, financial assistance and guidance from the City of Portland as well as technical help from Congressman Wyden's office, we obtained certification September 30, 1982.

I trust that whatever else separates us we are all united in the belief that the expansion of small and medium sized businesses is critical to the economic health of the nation. Small businesses are responsible for most of the new jobs created each year. They also have higher productivity rates (than large businesses) and are responsible for many advances in technology.

Small businesses also have special problems and needs. They are risky. (Most fail during their first five years.) One reason for this is lack of access to capital -- particularly affordable, long term debt with which to buy machinery, equipment, land and buildings.

Most long term financing options available to large companies are not available to small businesses. These include: the bond market, equity capital, venture capital and private placements. Small businesses rely primarily on commercial banks to meet their financing needs.

Don't get me wrong. Banks do a good job, but they operate within limits that disadvantage small business borrowers.

Banks are regulated institutions. They must match their assets (loans) to their liabilities (mostly demand deposits). As a result, banks are short term lenders and even then often float interest rates. Further, underwriting standards for mortgage bankers limit the amount even very strong businesses may borrow for real estate acquisitions.

Businesses invest in fixed assets to obtain job creating growth, but this growth often increases the need for cash (for inventories and receivables) faster than it can be generated by profitable sales. Thus, bank constraints on financial leverage, interest rates and repayment term (for fixed assets financing) impose severe limits on small business growth.

The SBA 503 financing program bridges this long term, fixed asset financing gap for healthy, profitable small businesses. Local development companies like River East work with banks to provide borrowers with up to 90% debt financing on land, buildings, machinery and equipment. The portion we provide (up to 40% of project cost) is repaid at a fixed, below market interest rate (currently about 12½%) over 15, 20 or 25 years.

This reduces the cash small businesses have to tie up in fixed assets. As a result they can grow faster and create more new jobs than would be possible without our help.

To date the 541 certified development companies have been authorized to sell $764 million worth of debentures for 3,828 small business. Locally, River East has been authorized to sell $6,163 million for 28 small businesses. These 28 local projects represent a total investment of over $16 million and over 554 jobs either created or saved. It is also important to note that every one of our 23 closed loans is being repaid as agreed. Tables A and B provide additional details.

You face a dilemma -- how to save needed programs while reducing the deficit. In the case of SBA's 503 and SBIC programs, you have an alternative that accomplishes both aims. According to the Office of Management and Budget these two programs require a federal outlay of $715 million per year. However, this is only because Treasury will not let the Federal Financing Bank sell our debentures in the private capital markets as Congress intended.

Please support continuation of SBA as proposed in S.408 and reduce outlays by forcing the Federal Financing Bank to sell our SBA guaranteed debentures to private investors.

The four small businesses on the panel today are a small part of the 503 success story. Although "low tech" businesses, all have succeeded by applying "high tech" approaches to problem solving,management and control.

1. American Hardwoods, Inc.
12430 S.W. Herman Road
Tualatin, OR 97062

Craig and Gabriele Keeler

JOBS:

Before Project	95
After Project	160
Created or Saved	65

COST:

Oregon Bank	$ 953,000
REPI 503	$ 500,000
Borrower	$ 449,537
TOTAL	$1,902,537

American Hardwoods was founded by Craig Keeler in 1967 to buy and sell veneer. Eventually, it came to lease an old plywood mill in Creswell and a veneer plant in Wilsonville (120 miles apart). To reduce costs and increase capacity they decided to consolidate operations. With 503 assistance the Keelers bought a defunct fork lift manufacturing plant and rebuilt it into the first new plywood mill and veneer plant built in Oregon in over 20 years. There, they lay up and splice hardwood veneer and manufacture plywood, primarily for furniture and door manufacturers.

2. Delta Engineering & Manufacturing Co. Inc.
19500 S.W. Teton Avenue
Tualatin, OR 97062

Gary and Carole Wooden

JOBS:

Before Project	35
After Project	86
Created or Saved	51

COST:

Oregon Bank	$ 660,000
REPI 503	$ 500,000
Borrower	$ 257,676
TOTAL	$1,417,676

Delta was started by the Woodens in 1979 as a custom fabricator and designer of sheet metal components and assemblies for manufacturers in the western United States. They design tooling, cut, punch, stamp, debur, sand, form weld, plate, paint, silk screen, assemble and ship components in quantities from one to several thousand. Many customers are in the electronics and computer manufacturing business requiring very high quality control.

The 503 project purchased land and constructed a 40,500 square foot plant with attached offices. At the same time the company designed and built a new monorail plating line.

3. Moore Lithograph William J. Moore
4447 N.E. Glisan
Portland, OR 97213

JOBS:		COST:	
Before project	29	Pacific Western Bank	$438,000
After project	38	REPI 503	$359,000
Created or saved	9*	Borrower	$ 87,600
		TOTAL	$884,600

* A third shift is planned which will create 8-10 more jobs.

Moore Lithograph was founded in 1962 by William J. Moore. It is a successful lithographic printing job shop. They specialize in quick delivery of high quality color printing of booklets such as annual reports and sales catalogues. In response to demand they doubled their plant size, improved work flow and acquired a new 5 color Heidelberg Speedmaster offset press. The 503 project financed acquisition of the new printing press.

4. Nature's Food and Tool, Inc. Stan Amy
3437 N.E. 24th Avenue
Portland, OR 97212

JOBS:		COST:	
Before project	33	OR Pioneer S&L	$150,000
After project	49	REPI 503	$127,000
Created or Saved	16	Borrower	$ 34,560
		TOTAL	$311,560

Nature's Food and Tool, Inc., was incorporated June 9, 1977 as a retail store specializing in high quality, fresh food and bulk goods. Unlike traditional health food stores emphasizing low volume sold at high margins, Nature's has been a leader in the natural food industry broadening its product line to sell higher volumes at lower margins. They provide grocery items, produce, deli items, health and beauty aids and cooking classes as well as a growing line of house wares out of two Portland stores.

The 503 project purchased and remodeled a building (part of which was previously leased) for their N.E. Portland store. It also financed machinery, equipment, furniture and fixtures needed to continue to meet increased demand for the "best of fresh food".

RIVER EAST PROGRESS, INC.
SUMMARY OF SBA 503 DEBENTURES AUTHORIZED AND SOLD
9/30/82 - 3/30/85

TABLE A

	STATUS AS OF 3/30/85	
	DEBENTURES AUTHORIZED	DEBENTURES SOLD
Number of Businesses Assisted	28	23
Number of participating banks, Savings and Loan Associations, etc.	14	12
Jobs saved or projected to be created within 24 months of project completion	554	465
Actual jobs created or saved as reported by 9/30/84 survey	n/a	285*
Private Sector Financing	$ 8,314,670	$ 6,710,970
REPI/SBA 503 Debentures	$ 6,163,000	$ 4,834,000
Borrowers Equity	$ 1,784,838	$ 1,450,923
TOTAL NEW INVESTMENT	$16,262,508	$12,995,893

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*15 projects were closed as of 9/30/84.

SBA 503 COMPARISON BY GEOGRAPHIC AREA
AS OF
12/31/84

TABLE B

DEBENTURES AUTHORIZED BY SBA:	RIVER EAST PROGRESS, INC.	OREGON TOTAL	REGION X TOTAL	GRAND TOTAL
NUMBER	28	68	218	3,828
AMOUNT (millions)	$6.163	$14.503	$53.328	$764.206
REPI RANKING	-	1st of 9	2nd of 25	23rd of 541*
DEBENTURES SOLD TO FEDERAL FINANCING BANK				
NUMBER	20	43	134	2,304
AMOUNT (millions)	$4.469	$8.096	$30.249	$438.307
REPI RANKING	-	1st of 9	2nd of 25	20th of 541*
PERCENT OF BORROWERS CURRENT	100%	93.0%	87.3%	91.0%

*An additional 19 agencies have been decertified for lack of activity.

TESTIMONY OF GARY R. WOODEN, GENERAL MANAGER, DELTA ENGINEERING & MANUFACTURING CO., INC., TUALATIN, OR

Mr. WOODEN. I am Gary Wooden, general manager of Delta Engineering & Manufacturing.

Delta Engineering & Manufacturing is a manufacturer of sheet metal enclosures, chassis, and components for a local electrical, electronics, and medical industries. Our customers include Hewlett-Packard, Intel, Techtronics, Boeing Parts Systems, Adele Medical, AWECO, ADP Assembly, and many others.

We provide all aspects of the manufacturing cycle including the design, cutting, machining, punching, forming, welding, plating, painting, screen printing assembly, packaging, and shipping.

Our work requires highly skilled technicians in all phases of metal fabrication and finishing. We utilize highly sophisticated state-of-the-art equipment and manufacturing procedures, including programmable computer control shears, turret punch presses, press brakes, and welders, as well as computerized job tracking production control, job costing, machine programming, and financial controls.

We are staffed with experienced professionals, including a registered professional engineer, two business administration graduates, BA's, a BS graduate in safety and manufacturing, a manufacturing personnel with extensive experience and knowledge.

We started Delta Engineering & Manufacturing in June 1979, and are currently employing 85 people, and produce over $3 million worth of precision sheet metal enclosures each year. We are the largest manufacturer of precision sheet metal enclosures in the Northwest.

We have invested over $1.25 million in equipment, over $1 million in our facility, and over $½ million in working capital, for a total investment of nearly $3 million.

We contacted SBA and the River East in 1983 when our growth and future projection showed that our facility would be inadequate to meet our growth. We investigated other potential sources of financing for our expansion, but we could not meet their requirements.

The SBA program provided the only economically feasible program for our new facility. The key element was the 10-percent owner participation. With our rapid growth and high capital equipment requirements, we could not afford a large owner participation. Our capital needed to be conserved for equipment acquisitions and working capital expansion.

The SBA and bank financial commitments were secured by the facility, which is evaluated at over 20 percent over the cost, plus our 10 percent over the contribution and a guarantee by our personal net worth that exceeds the financial commitment.

With the help of the SBA program, we have built a state-of-the-art manufacturing facility, which will provide space for our future growth, and which provides a safe and comfortable environment for our employees. As part of the facility we designed and built with our own funds a $¼ million semiautomatic plating line.

We have met all SBA bank, local, State, and Federal requirements, including business growth, financial stability, nondiscrimination, employment, health and safety, environmental quality, zoning, building code, and fire protection.

The SBA program provided the only feasible way of continuing the growth of our business. The program has allowed us to expand our employment, sales and market, to increase corporate and payroll taxes, and to reduce unemployment and welfare costs which should more than offset the SBA program costs and small reduction in interest on the SBA loan commitment.

I strongly recommend the retention and continuation of this SBA program, as a low-cost and low-risk means of assisting expansion of small businesses and the resulting increase in employment and tax revenues.

Thank you.

Mr. **Wyden**. Thank you, Mr. Wooden.

Just one question: you say that "The SBA program provided the only feasible way of continuing the growth of our business."

Did you try elsewhere?

Mr. **Wooden**. Yes, we did. We talked to local banks. They wanted a 30-percent downpayment, which would have been impossible to meet, as we needed the cash.

Mr. **Wyden**. Let's back that up. You went to the other banks to try to expand, and they wanted a 30-percent downpayment. It is almost as if you would have to have sold your business in order to get the downpayment; is that right?

Mr. **Wooden**. Yes. We did not have the cash. We needed to conserve that for expansion and for additional equipment acquisition.

Mr. **Wyden**. Good.

Mr. **Wooden**. We also checked into industrial revenue bonds and found that they were not suitable for us either.

Mr. **Wyden**. Well, thank you.

Just in the interest of time, gentlemen, if our two other panel members could just summarize. I will make a copy of your prepared remarks as a part of the record. I know what happens—whenever I have a piece of paper in front of me, I am always tempted to read it, and I really will make your prepared remarks a part of the record, and if you will just highlight some of your principal concerns, that would be helpful.

TESTIMONY OF WILLIAM J. MOORE, PRESIDENT, MOORE LITHOGRAPH, INC., PORTLAND, OR

Mr. **Moore**. I am Mr. William J. Moore of Moore Lithograph.

Mr. Congressman, ladies and gentlemen.

To summarize, I would say that my present success today—our growth rate over the past year from 29 to 38 employees, 60 percent sales increase and dramatic profit increases are directly attributable to the 503 Loan Program, and that is quite an accolade, but deservedly so. We simply could not have gotten into this expansion that we did based on the same principal reason, we were advised that we would need about 16 percent interest rate for a 7-year period with a 25-percent downpayment on a $900,000 printing press. We just simply could not afford it.

We stopped, pulled in our horns, and then heard about 503, and from that point on after contacting River East Progress, the rest of it is history.

From my standpoint, it is a very pleasant history, and I think it has a bright future in that we have been able to avoid cash flow killing monthly payments because of the lower interest rate and the expanded terms.

We are looking forward to adding additional people, to adding additional shifts, which means further expansion. I personally want to thank Martin Loring of River East Progress and actually our bank who took a chance with us. They tried it; they liked it; I like it, and I am speaking in favor of continuing the program.

Mr. **Wyden**. What can the SBA do best, in your view, Mr. Moore? Here we are in this fiscal crunch. We have been talking all morning about the $200 billion deficit. You have had plenty of dealings with them. What can they do better?

Mr. **Moore**. I have had very few dealings with the SBA. I dealt through River East Progress. I do not know them well enough, except that I do second what Mr. Titley says. Let's get this information out so that people can use it. I heard of it through an accident, almost by chance.

Mr. **Wyden**. OK.

[Mr. Moore's prepared statement follows:]

PREPARED STATEMENT OF WILLIAM J. MOORE, PRESIDENT, MOORE LITHOGRAPH, INC., PORTLAND, OR

I am the founder, president and chief executive officer of my company. Started in 1962 our growth and market position has steadily increased to where we are recognized as among the leading printing companies in our state. From one employee initially to 29 employees in January of 1984 to 38 today. Our most recent growth, adding 9 new employees, increasing sales by 60 percent and dramatically increasing profits, I feel is directly attributable to the SBA Loan Program 503.

Quite an accolade for 503, but deservedly so. We had spent the better part of 2 years in market research and studying of 8 brands of computerized printing presses. Our market study conclusively showed us that in order to grow and prosper we had to increase productivity by adding a new 40", 5 color, computer controlled offset press. This decision was based primarily on 2 main points. Customer confidence in Moore Lithograph and second the ability to produce better work at less cost.

When the brand of press was finally decided on in early 1983 we began negotiations with the Heidelberg West, Printing Press Company. At the same time we started looking for financing. While fairly strong in our capital position, we knew we had to move our physical plant to accommodate this expansion plan and that we would need all of our nickels for the cost of the move and leasehold improvements unique to our industry.

When we were advised that 16 percent for 7 years and 25 percent down on approximately $900,000.00 for the new press was our "best" financial package we called a stop to the entire project. At about the same time, one of the contractors making suggestions on the remodel of a building we were looking at suggested we investigate something he had recently heard about, an SBA program called 503. Investigate we did and the rest is history.

It is pleasant history and a bright future based upon the liveable terms of our 503 loan. Instead of a nearly impossible down payment and cash flow killing monthly payments we were able to comfortably fit ourselves into a reasonable and profitable growth program. We have since added additional equipment in both the press and bindery areas. We are looking forward to a more complete second shift and possibly a third shift. Additional shifts equal additional employees.

I would like to thank Martin Loring and River East Progress for "putting together" our 503 program and much thanks also to John Grosvenor, vice president, Commercial Loans, Pacific Western Bank. We were Pacific Western's first 503 and John sold his bank on trying it.

They tried it—They liked it—and so do I.

Mr. LORING. We have Mr. Stan Amy of Nature's Food and Tool.

Mr. WYDEN. Mr. Amy.

TESTIMONY OF STANLEY AMY, NATURE'S FOOD AND TOOL, INC., PORTLAND, OR

Mr. AMY. Mr. Congressman.

Briefly, in summary, Nature's is a successful retail business. We are a specialty retailer. We faced a situation in which we could not grow any further, because we could not come up with a 30 to 40 percent downpayment, that the bank was asking for, to acquire the facility that we needed to grow.

The reason we could not come up with that was sort of ironic. It was because we were successful. As a growing retail business we are inventory intensive. To support the additional sales we were having, we were having to put our dollars back into more inventory. That meant that we did not have that 30 to 40 percent that the banks that we talked to asked for.

The 503 Program made it possible for us with an 11-percent contribution to get the necessary funds. The results of that were that we went from 33 jobs to 60 jobs. That was the creation of 27 jobs at a cost of about $4,700 per job in loan moneys—not in Federal outlays, but in loan moneys. I think that is a highly leveraged result for the Federal Government to achieve in terms of job production.

Mr. WYDEN. So, under that kind of loan arrangement, the Federal Government also gets paid back?

Mr. AMY. That is right.

Unlike training programs, unlike Federal outlays in purchasing military contracts or other uses and the jobs that those are tied to, it is not a dollar for dollar exchange. You do not have to put in a dollar of Federal money to get a dollar of wages paid out there. It is a leveraged activity, and if you want to talk about how the Federal Government can more effectively use its dollars, it is by operating more like a business, focusing on leverage; and this is a program that gives a great degree of leverage, and it would be a real mistake to cut.

Mr. WYDEN. Very helpful.

Any other suggestions or ideas?

Mr. AMY. Back to that theme, I think SBA itself can focus on operating more like a business. I would say three things.

One, minimize overhead, as was spoken to earlier.

Two, get closer to the customer, and market more aggressively. I found out about the 503 Program when I happened to read an Oregonian article about the startup of River East. It was incidental. I happened to be sitting down with my Sunday paper and I was up against the wall at that point in time. The building I was in was going to be sold. I faced not only the inability to expand but the possibility of losing my control over my long-term operation.

Create a more entrepreneurial atmosphere within the agencies, and I think the local development company concept does that.

Privatize where it makes sense; create some incentives, and do that with self-sustaining programs where the money to finance the operation of that program comes right back out of small businesses that are benefiting, which is the case with the program like River East.

Mr. **Wyden**. So, what you are really saying is that if you had your way, if you froze SBA spending—say, at last year's level, something which, of course, is being debated in the Congress, and then did a better job of promoting entrepreneurial activities within the SBA, and if we did a better job of getting information out to small businesses, you think that would be the way to go?

Mr. **Amy**. And focused on those programs which have leverage. Yes; without a doubt.

Mr. **Wyden**. What is the difference between a program with leverage and one that does not?

You are talking about something like this where the Government is going to get paid back as a loan kind of program, and you have to put up part of the money as opposed to direct grants, say, for training, and that kind of thing.

Mr. **Amy**. That is right. Or looking at programs—and this, I guess, goes out beyond the SBA; but when the Government points to Federal expenditures and the jobs those generate, purchases of services are good.

For example, in military spending, it is generating dollars. They are getting a dollar-for-dollar exchange on those jobs. You put in $20,000, and you get one $20,000-a-year job.

When you put in capital, make capital available to small businesses, you have leveraged that. We mix our capital in with that, and we mix all of our customers' income coming in. We pay for those jobs with the income coming in the door, not with the dollars you gave me.

Mr. **Wyden**. Now, you make a number of interesting points. I have always felt that this concept of trying to give people a vested interest in success, and doing it in a way other than just putting money out the door and saying, well, who knows what will happen hereafter, is a good idea, and your suggestions are good, and I thank you for coming.

Mr. **Amy**. Thank you.

[Mr. Amy's prepared statement follows:]

PREPARED STATEMENT OF STANLEY AMY, NATURE'S FOOD AND TOOL, INC., PORTLAND, OR

My thanks to Acting Chairman Wyden, Mr. Sobota, and Chairman Mitchell for the opportunity to participate in these hearings. As a business owner whose business has benefitted from SBA financial assistance and thus been able to benefit the community in provision of jobs and improved services, I welcome the opportunity to speak in support of the SBA.

Nature's operates two neighborhood markets specializing in fresh and natural foods. We are a healthy and profitable company with an ever increasing demand for our services. In 1983, the building which houses one of our stores became available for purchase. Purchase of this building enabled us to increase our retail square footage by 75 percent and gain control over our future occupancy costs. However, we found it almost impossible to obtain affordable long term financing. Our sales growth had demanded that we devote most of our available cash to inventory. Thus the 30 to 40 percent downpayment required for conventional financing was beyond our means.

The SBA 503 program enabled us to borrow the needed funds with a down payment of 11 percent. This made our expansion possible. Obviously, the 503 program was good for us. Was it good public policy?

As a direct result of our expansion, we have nearly doubled our gross sales. This sales growth made possible the creation of 27 new jobs. It took an investment of only $4,700 of federally guaranteed loan moneys to create each new job. I think that's a worthwhile return on investment in a state with an 8.9 percent unemployment rate.

But the benefits don't stop there. Our sales growth has also generated $1.2 million in additional purchases from approximately 250 regional vendors. Over 60 of these are very small one-to-ten person companies. Nature's serves as the stable base from which these companies can continue to build their business. For example: Gloria Nasson began baking cookies in the kitchen of our southwest store with us as her only account. Today she has her own bakery facility and 27 other accounts, including Fred Meyer stores.

I have also seen the deterioration of a commercial intersection be reversed, thanks in large part to financing SBA has made available to us and one other business. A few years ago, two thirds of the commercial space at the corner of 24th and Fremont stood vacant and deteriorating. Today, our corner is a thriving center of neighborhood services, with upgraded buildings and no vacancies.

In summary, my experience indicates that a properly managed 503 program can:

(1) Provide critical long-term financing that would not otherwise be available to successful small businesses.

(2) Enable those businesses to create new jobs on a very effective cost/benefit basis.

(3) Enable those businesses to have a significant multiplier effect on their own segment of the community.

(4) Act as an effective catalyst for grass roots urban renewal.

Now, I'd be glad to answer any questions you might have.

Mr. **Wyden**. Our next panel is on business loan guarantees: Peter Day, PED Manufacturing; Mrs. Margaret R. Van Thiel, TVT Die Casting & Manufacturing; Darrell Badertscher, Burke's Paint Co., Washougal, WA; and Henry Scott, Coast Janitorial Service, Inc., in Portland.

We are happy to have you men and women here today, and if you all will come forward.

We have a couple of witnesses who are still flying in, and why don't we just begin with you, sir, and you can identify yourself, and if you would summarize your remarks we will make a copy of your prepared statement a part of the record. In particular, I would appreciate receiving your suggestions on how the SBA could do better.

Mr. **Badertscher**. OK. Thank you, Congressman.

TESTIMONY OF DARRELL BADERTSCHER, PRESIDENT, BURKE'S PAINT CO., WASHOUGAL, WA

Mr. **Badertscher**. My name is Darrell Badertscher, and I am president of Burke's Paint Co., located in Washougal, WA.

I think, like everyone else here, I am here to tell you about my experiences with SBA.

Our company is a very small company. We are a regional manufacturer of paints and coatings. We were started in 1948 by my grandfather. It was pretty much of a one-man operation up until the midsixties, at which time we started to expand very slightly.

We were up to, probably, the employment of 5 people in 1973 when our facilities burned down, and it was at that point in time that I first got involved with SBA. We were out looking for a loan to rebuild our business. We were having trouble with commercial banks. Obviously, a company that was burned down and was not adequately insured was not a good risk. They did not feel a good risk at that point in time.

But we were able, through the SBA program, to demonstrate enough credibility that they did guarantee a loan—two loans, actually, one to lease a new facility; and then one to buy the machinery and equipment and materials to get back into business.

Since 1973, our employment has gone from 5 people up to over 30. We have actually five different locations now, between Oregon and Washington. Our payroll approaches $500,000.

In 1983, we did apply for another SBA loan to open two new locations in the State of Oregon, again providing additional employment.

It is my feeling that the dollars that we were able to obtain, through SBA guarantees, have really not been Federal dollars. Obviously, there is money that goes into the administration of the program, but I think, like most of the people here, we do pay our loans on the first day of every month. There is no actual Federal outlay other than just a guarantee by SBA to the bank that should something happen, SBA is standing behind our loan.

So, like I say, I believe the dollars are very well spent; and without SBA's help, quite frankly, I would not be here today.

On behalf of myself and my 30-odd employees and their families, we think it is a very worthwhile program.

Mr. WYDEN. OK, sir.

TESTIMONY OF PETER L. DAY, PRESIDENT, PED MANUFACTURING, LTD., OREGON CITY, OR

Mr. DAY. Congressman, my name is Peter Day, and I am president of PED Manufacturing in Oregon City. PED Manufacturing is a steel investment casting firm. We do investment casting of steel.

I started my business in 1969 because I was unemployed. I was out of work at 44, married, six children, a mortgage, and the like. In frustration, I started a business in my backyard, an original cottage industry-type thing.

In 1972, we had been successful enough that we needed to expand, and I went to the local bank and found that we could not borrow money.

If we could have borrowed money, we could have borrowed it for a maximum of 3 to 5 years.

I then heard about SBA and, to make a long story short, we secured an SBA loan for $55,000 that started us off on a 3-acre industrial site, and a 6,000-square foot building, and a little bit of equipment.

Our business has grown over the years. In 1978, we increased our borrowing from SBA to $500,000. We now employ—and we have for the last number of years, 60 employees. Our sales last year were over $4 million; our payroll into the Oregon City area was over $1½ million; and over the last 3 years has been over $4 million.

The SBA program is what got us going, and I would hate to see it stopped because there are lots of people that have ideas that cannot get off the ground because they cannot raise the money.

The biggest problem we have in business and small business today is raising the capital for expansion or to buy equipment.

There is one other thing, I think the SBA program should be increased, not decreased. I think the amount of money available should be increased to at least $1.5 million based on the life expectancy of the equipment that has been bought.

In most manufacturing businesses, the term life of a piece of equipment runs anywhere from 10 to 30 years. I have equipment in my place that cost me over $100,000. I will still have that equipment in my plant 30 years from now. All it takes is to refurbish it as you go along.

But I have to pay for that because I am working through the bank now, over a 5-year period. I am currently paying to the bank—I am paying down over $220,000 a year in principal, plus an additional hundred and some odd thousand in interest.

There is $300,000 that is going out of my business. If we could even increase the term payment from 5 to 8 or 10 years, it would put more cash into the business and would show a greater net income for the business and also be a larger source of taxation for the Federal Government.

In our case, with the kind of revenues that we are generating and the kind of payroll we have, a lot of taxes are being generated off that payroll for the Federal Government.

For 60 employees, it does not take much to reason how much money is coming out of that thing.

Thank you.

[Mr. Day's prepared statement follows:]

PREPARED STATEMENT OF PETER L. DAY, PRESIDENT, PED MANUFACTURING, LTD., OREGON CITY, OR

I would like to begin my testimony by giving a little of my personal history leading up to the formation of PED Manufacturing Limited. (PED Manufacturing is a steel investment casting foundry.)

In 1962 I was an officer in the Royal Canadian Air Force and decided to get out of the service and immigrate to the United States. I came to the United States in the fall of 1962 and worked continuously as an employee until the fall of 1969, when at the age of 44 I was laid off and could not find work. At that point in my life I had $3,000 in savings, a loving wife, six children, and a mortgage. After much hand wringing and worry as to what to do for work, I decided to start PED Manufacturing. PED is an acronym for Peter and Ellen Day.

For 30 days I worked at building equipment to get me operating, then in September, I started looking for business. In my first year of business I grossed $75,000 in sales and was able to provide an income for my family that was twice what I had ever earned working for anyone else. However, I worked harder than I had ever worked for anyone else. 18 hour working days and seven day weeks were common.

In 1971-72 we had outgrown our small foundry and looked around for a larger facility. It was then that I approached our "friendly banker" to look for financing. There was no financing available through our bank and if there had been it would only be a 3- to 5-year term.

I then found there was a government agency called SBA that would underwrite my loan with the bank, the 7(a) program. To make a long story short, we were successful in borrowing $55,000. That original $55,000 enabled me to buy three acres of industrial land in Oregon City, construct a 6,000 square foot building, and buy some equipment. From 1972 to 1978 we worked our sales from $158,000 to $925,000 annually. In 1978 we borrowed again through SBA to raise our total loan to $500,000. This money was used to expand our plant to 20,000 square feet and acquire some new equipment. In 1979 we had sales of over $1,000,000. In 1980 it was over $1,700,000, in 1982 it was over $2,000,000 and in 1984 it was over $4,000,000.

Our business is very labor intensive and also very capital intensive. In fiscal 1983-84 we committed over $1.4 million in new capital equipment and plant, all borrowed from the bank on a 3- to 5-year payout. We currently pay off over $267,000 a year in principal debt plus additional interest of $120,000.

I have given you some financial background to show how SBA has helped PED Manufacturing Limited progress from nothing to where we are today. However, I think that SBA could do much more to increase business growth, profitability, and IRS taxable income.

1. The loan limit of $500,000 for capital equipment should be raised to $1,500,000. The $500,000 limit does not reflect the increase in inflation since 1970.

2. By raising the loan limit, the heavy payout of principal and interest on a bank capital loan could be stretched out over a 10-year period, thereby, increasing the net profit of most companies.[1]

Example: Principal, $100,000 at 12.5 percent.

Term	5 years	8 years	10 years	13 years
P&I	2,249.80	1,652.89	1,463.77	1,299.77
T/I	34,988.00	58,677.44	75,652.40	102,764.12
M/R		596.91	786.03	950.03
A/R		9,432.35	7,162.92	11,400.36

3. IRS taxable income would increase on a 10-year payout as the net change would leave more profit in the business.

The SBA program is a good program that has helped many small companies.

We all recognize that small business is the major employer of workers in America, it is also where the majority of new jobs are generated.

Just using PED Manufacturing as an example of how jobs and payroll are created by small business, in 1984 PED had 60 employees with a gross payroll of over 1.5 million dollars.

Lastly, there has been comment in the press that the administration would like to discontinue the SBA program. I personally believe that would be very negative to the creation of new business and jobs. I said earlier that I came to the United States from Canada, I came with one intention, to start my own business. At that time I did not know when or where, but I knew that it could be done in the United States because of the sunny, favorable business climate. SBA is part of that favorable climate, if you close out SBA we will only have dark clouds which will destroy our national entrepreneurial spirit.

Mr. WYDEN. Mr. Scott.

TESTIMONY OF HENRY SCOTT, COAST JANITORIAL SERVICE, INC., PORTLAND, OR

Mr. SCOTT. I am Henry Scott from Coast Janitorial Service, and I have gone through the same things these fellows have gone through. I started my business in 1957, and could not get financed through the bank and it was just a big hassle, but in 1971 I first went to SBA and got loans through the bank and got the bonding and everything that we needed through SBA, and it has been working real good.

At that time, in 1971, we had about 25 employees. Today, we have 150 in Portland.

Now, we are in Idaho, California, and Washington. So, it has meant everything to us. Without it, we could not have gotten where we are now.

Mr. WYDEN. Anything you want to add?

Mr. SCOTT. I just hope it was bigger. I hope it could get bigger and do more.

Mr. WYDEN. For any of you three who would like to comment, what suggestion might you have for making it work better?

You have heard me repeat here several times that the premium today is on doing a better job and doing more with less, and figuring out ways to stretch our resources. What suggestions do you have along these lines?

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[1] NOTE.—Item 2 refers to assets of 10- to 20-year life.

Mr. BADERTSCHER. I will go first. One program, which I think has been somewhat curtailed in the last few years that was very beneficial to us was a management advisory committee program that SBA had. We were kind of a pioneer of that program, and basically what it did was put together a number of executives, some from ACE and some from SCORE, a good accountant, and then some people from SBA.

They, basically, came once a month to our business and attended our board of directors meetings. The knowledge that I gained from those people was tremendous; and I think any small business would benefit immensely from a program like that.

Mr. WYDEN. That would cost additional money?

Mr. BADERTSCHER. Unfortunately, yes, it would cost additional money, but I think the benefits derived, as I was saying, in terms of employment and expansion of the business and this type of thing would more than offset the cost.

Mr. WYDEN. Well, you make a good point. The tragedy, of course, today is that we have to figure out ways to save. There are not even the dollars to do the things that will be more than recouped very shortly thereafter, as a result of the people having additional expertise and the like. That is the problem that we face.

Have any of you gentlemen any ideas around that kind of savings proposition?

Mr. DAY. I do not have anything to say on the savings point. I will say that if SBA is obliterated or wiped out, you are going to lose the entrepreneurial spirit that exists in America today.

There is no way that you can start a business in today's economy on a shoestring like I did; and that was just 16, 17 years ago. There is no way that you can do it.

You have to have help from somebody. The bank cannot give you the help because they have their hands tied. My biggest problem is trying to generate long-term investment for my company, and I cannot do it.

We would be a lot bigger company today if we had been able to do it. We would be much more profitable today. That is my biggest point.

Mr. WYDEN. Mr. Scott.

Mr. SCOTT. I would like to see SBA go more into seminars. Now, I have gotten more out of seminars than—it is just what I needed, because I knew nothing about business when I got started. I think I was one of the lucky ones, and I have a lot of brothers, and we all got together, and we worked together.

I went to the seminars and I really got a lot out of those, so I would like to see more of that.

Mr. WYDEN. Well, that is an interesting observation, Mr. Scott. I mean, that is the kind of thing where the Government's role could be pretty modest as well. They could, for example, get a group of private individuals from an association or a particular trade, and they could put a seminar on, probably with the private group paying part of it, and the Government paying for part of it.

Would that not be the kind of thing you are talking about?

Mr. SCOTT. Yes. That would be good; that would be very good.

Mr. Wyden. Well, a good suggestion, and one of the things that interested me, Mr. Badertscher, I understand that you have a patent on a paint which can be used instead of stainless steel, and it has USDA approval. I understand there is a general feeling that there is a substantial market out there, a big potential market for something like this.

Do you see this as the kind of small business innovation that can come about because of the kind of program that you are talking about here today?

Mr. Badertscher. Well, obviously, if it were not for the SBA Guarantee Loan Program, we would not be here.

Through that program, it has enabled us to be in this business. As a small company—I think most small companies are basically the innovators. It is true that we do manufacture; we do specialize in waterborne, very high technology but low toxicity products, one of which happens to be pigmented 316 stainless steel plate, and actually can be used in place of 316 stainless steel; has an estimated life, in a corrosive atmosphere of 40 to 50 years.

We are getting an awful lot of response. It is a relatively a new product on the market. We have just started to market it within the last year. We are getting a tremendous response from all over the world. As to what the potential sales are, at this point, quite frankly, I cannot tell.

But, again, without SBA programs, like the loan guarantee program to help small businesses like ourselves, those dreams that we have that we are making the products do not ever become realities, so I think it is very important.

Mr. Wyden. Well, gentlemen, thank you all for excellent testimony, and we are very appreciative. You are excused.

To our next panel, gentlemen, good morning. I think the only thing I would ask you first, if you can get very close to those microphones. We've had a number of people in the back of the room say that they would very much like to hear our witnesses better, and we're having problems. So—thank you. Mr. Hartley—if you could get close to the microphone it would be helpful, and also if you could summarize your testimony and we will make the prepared copy of your remarks a part of the record. And, once again, I ask for your ideas and suggestions on making our program run more efficiently.

Why don't we begin with you, sir, if that would be all right, Mr. Wong.

Mr. Wong. Yes.

Mr. Wyden. OK, good.

TESTIMONY OF HARRISON JIP WONG, OWNER, ASIA KITCHEN, PORTLAND, OR

Mr. Wong. I am Harrison Wong, the owner of Asia Kitchen. When we started in business in 1972 with the help of SBA, we started with about nine employees, until 1974, when we expanded. Now we have about 35, with the SBA's help, and I don't know what except——

Mr. **Wyden**. How did this program work for you, Mr. Wong? How did it work mechanically? You tried to get a bank loan and you were unable to do so?

Mr. **Wong**. Well, yes, but the bank that loans money to the people we asked money—not the people, but their abilities. I couldn't get that loan except to ask SBA, you know, to help me get started.

Mr. **Wyden**. Short and sweet.

Mr. **Wong**. Yes.

Mr. **Wyden**. Thank you. Anything else you wanted to add?

Mr. **Wong**. Well, I just hope they understand and help people.

Mr. **Wyden**. All right.

Mr. Hartley.

Mr. **Hartley**. Thank you.

TESTIMONY OF NATE HARTLEY, PRESIDENT, NATE HARTLEY FUEL OIL CO., PORTLAND, OR

Mr. **Hartley**. I'm Nate Hartley, president of the Nate Hartley Fuel Oil Co. located here in Portland. I have a prepared statement I'd like to read.

Recently the President of the United States has been sending signals to Congress concerning the abolishment of the Small Business Administration. The Small Business Administration provides final financial assistance to thousands of small and minority businesses every year. Without this assistance many small and minority firms could not function.

The number of firms that employ 100 people or less in this country represents 85 percent of the businesses. These small businesses employ the majority of workers in this country. The job training and employment opportunities that small businesses provide keep workers on the employment rolls rather than welfare or unemployment rolls.

The Small Business Administration is the closest financing institution dedicated to small businesses which, in turn, is the most aggressive expansion employer and small business is the most important sector for innovation in new products and services. Also, smaller businesses are more closely connected to local neighborhoods and communities across the country.

Our company, the Nate Hartley Fuel Oil Co. was started in December 1969 with the help of an equal opportunity loan guaranteed by the Small Business Administration. A few years later it obtained another loan through the Small Business Administration that was used to help us expand and purchase more equipment.

If it had not been for the Small Business Administration our company would not have grown and stayed in place as it has. Our company employs 8 to 11 people at all times and we have provided job training to many people over the last 15 years.

If the Small Business Administration is abolished the business opportunities for many small and minority firms like ours will be snuffed out. The banking community in this country is economically biased toward larger companies and larger loans. The Small Business Administration is the one and only Federal program that counteracts economic bias. The percentage of loans made to small and minority businesses by banks would be very small if it were not for the guarantees that the Small Business Administration provides.

I feel that the Congress of the United States should urge our President to keep the Small Business Administration intact so the small and minority businesses in the United States can continue to function.

Mr. WYDEN. Mr. Hartley, thank you.

Mr. Clevenger.

TESTIMONY OF LUTHER L. CLEVENGER, PRESIDENT, WHITE BUFFALO CONSTRUCTION CO., AUMSVILLE, OR

Mr. CLEVENGER. Hello. My name is Luther Clevenger. I'm the president and owner of White Buffalo Construction. We have an SBA guaranteed loan, and we also just recently took out a guaranteed loan from our bank. Without either one of these loans we would have been in serious trouble today. The first one that we took was the direct loan from SBA. We were unable to get any financing whatsoever from our bank primarily because we'd only been in business for 3 years and I lacked any prior business experience. Without that money I doubt that we would be in business today. Well, we've grown from 3 full-time employees to 4 full-time employees and 30 seasonal employees. Our revenues have doubled in over 3 years.

Recently when we went to our bank and asked for money to purchase a major piece of equipment they were willing to make the loan. It's just that they wanted so much down that it would have seriously handicapped our working capital position.

Mr. WYDEN. Excuse me for interrupting because I think that's an important point because we heard it referred to by the other gentleman. What you're saying is almost like what he said earlier is that to get money for a downpayment for expanding you almost have to sell your business to get the downpayment money. Is that correct?

Mr. CLEVENGER. That's correct. The problem is, especially in the construction industry, and that's the only business I'm familiar with, we need to keep as much cash as there is on hand as possible for bonding. We could have made the purchase, and we could have went through with the financing. We would have lost all our bonding which in effect would have stopped us from performing any additional work.

Without SBA to step in, in this case, and guarantee to our bank we wouldn't have purchased the piece of equipment which would seriously have handicapped us in the current economy, and things have gotten tight. We've been able to diversify, and primarily that's due to being able to get the loan. Also we are in the 8(a) Program, and they've given us much assistance there.

I don't think there's any one program that we've been involved in with SBA, and we've been involved in several, that in itself was that crucial. I think that it's the combination of the different programs, and the assistance that they give to us to develop the business. Not that they just gave us the loan, but that they came in, talked to us about management, did provide us with——

Mr. **Wyden**. Excuse me for interrupting you. Who came in?

Mr. **Clevenger**. They had a gentleman come in from SCORE originally, and he had some helpful information for us, and his time was volunteered. And I think the biggest help we got was in some of the SBA sponsored seminars that were low cost for us to attend. There were some legal seminars, management seminars. They also had a firm located here in Portland, MARTEC. They came in and advised us about financial management and different matters in relationship of how to pick up a bigger portion of the construction market in our area, how to take advantage of our minority status in regards to obtaining additional work.

I think that it's a broad spectrum that we look at that's been helpful for us, not that just we got a loan, and not that we just had some of this other assistance, that all put together is what's helped us along, and most likely has been able to keep us in business. I think we would have been in serious trouble.

Mr. **Wyden**. You share Mr. Scott's view then that more of these low cost seminars perhaps where Government and a private association would put something on is a sensible suggestion for the future?

Mr. **Clevenger**. Well, to some degree. The seminar itself isn't going to do you any good if you don't have any work. First you have to be able to, in our case, have the contract, and have the opportunity to manage it, or mismanage it. And in our case we had already incurred some problems, and it was one of the seminars that led us to picking up the knowledge and information that allowed us to resolve the conflict.

[Mr. Clevenger's prepared statement follows:]

Prepared Statement of Luther L. Clevenger, President, White Buffalo Construction Co., Aumsville, OR

Mr. Chairman and members of the committee, my name is Luther L. Clevenger. I represent White Buffalo Construction, Inc. I am here today to speak in opposition to the proposed abolition and or curtailment of the Small Business Administration. I am certainly not an expert in regard to all the activities, services and other functions performed by the SBA but I would like to share with you my experiences with the assistance provided to our firm.

In 1980 our firm received a direct loan in the amount of approximately $150,000.00 from the SBA. At that time, even though we had a viable firm, we were unable to secure financing from a bank. This inability was due to the fact that we had been in business for only 3 years and that we did not have a background of business experience. We used a portion of these direct loan proceeds to purchase a dumptruck. Our bank had refused to finance this truck even when we offered to put as much as 50 percent down. We used other portions of this loan to build and remodel office and shop facilities, increase working capital and to purchase other equipment.

Since securing this loan our sales volume has risen from $400,000 to this year's volume of $900,000. We have also had a steady increase in both net worth and profits. Our working capital is now four times what it was when we secured the loan. We now provide full employment for 4 people and seasonal employment for approximately 30 individuals. At the time that we received this loan we were able to provide employment for only 3 individuals.

Due to the economy and other market factors it is very doubtful that without SBA assistance we would have been able to achieve these increases in both size and versatility. In fact, it is more probable that we would have been unable to even maintain our position.

We have now repaid approximately one-third of this loan in a timely manner. Recently we also obtained a SBA guranteed loan for the purchase of a major piece of construction equipment. While our local bank would have been able to finance this piece of equipment they were quite hesitant without the guarantee. In fact, they would have required so much money down that it would have seriously impaired our working capital. With the guarantee we were able to put 17 percent down. I have projected that this piece of equipment will increase sales by approximately $300,000 annually which is almost three times the initial purchase price.

Our firm is also enrolled in the SBA 8(a) program to assist socially and economically disadvantaged firms. We have received great benefit from this program. This benefit has been in the areas of education, training in construction management, and in securing additional work. Much of this work has been in areas in which we had had difficulty in gaining a market share. This program has been of as much benefit to our firm as was the direct loan. With SBA assistance we are developing a growing business that is financially stable and well-managed.

In conclusion I would like to state that no single aspect of our assistance from the SBA has been responsible for our present success. It has been a combination of programs which has given us the help which we required. A significant portion of the economy of our region and nation involves small business concerns. Any action which reduces the options and the avenues of opportunity for these businesses will erode the small business community and will have an adverse impact on the economy of this nation. I urge you to maintain the SBA and its programs in their present form.

Mr. **WYDEN**. Thank you.

Mr. Wong, are there any suggestions you might have for the future, and given your long relationship with the SBA, and this program, any suggestions or ideas for the future?

Mr. **WONG**. No, I just hope the SBA stays on and helps people.

Mr. **WYDEN**. Anything you'd like to add, Mr. Hartley?

Mr. **HARTLEY**. Well, I'd like to see the program stay in place because small business is the backbone of this country economically. As some of these gentlemen have testified today, if you were to ask any one of them every one in business today knows that the future belongs to the efficient, and if SBA is wiped out it's going to be such a critical blow to the country. Small businesses are not able to obtain long-term loans from banks as banks are mostly in a short-term situation.

But I really hope that the program can stay because it's going to keep people employed, and if SBA is wiped out I don't know what would happen to the unemployment situation in this country. It would be terrible.

Mr. **WYDEN**. Gentlemen, thank you for coming and sharing your views and you're excused.

Our next panel will be on nonphysical disaster loans. Mr. Vance Moser, Cadet Manufacturing; Mr. Harold Hartman, Gerlinger Casting Corp.; Mr. Michael O. Reese, Miken Corp.

Gentlemen, if you would like to come forward.

Have there been any witnesses called who were missed earlier?

How about Mr. Steven Gaines or Mr. Jim Geisinger? Why don't you come forward, sir. We are making fast time. Chairman Mitchell would be proud, I might add.

Mr. James Geisinger, and you are speaking today for the Western Forest Industries Association.

Mr. **GEISINGER**. That's correct, and we appreciate your interest in the Small Business Administration.

Mr. **WYDEN**. We welcome you. Please proceed.

TESTIMONY OF JAMES GEISINGER, WESTERN FOREST INDUSTRIES ASSOCIATION

Mr. GEISINGER. I'm taking a little different tact than some of the previous witnesses in that the members that we represent which are manufacturers of lumber and plywood, rely on SBA not so much in their own pursuits of success, but in their dealings with the Federal Government. And there are two major concerns that keep our 98 members together as an association.

First is a substantial reliance on Federal forest lands as their primary source of raw materials, and, second is the myriad of concerns associated with there being small businesses struggling to survive in an increasingly competitive industry. And, as you may see, those two concerns are inextricably related.

The programs that are administered by SBA are directly responsible for the existence of a small business sector in the wood products industry, and we are here today to support the maintenance of SBA. It has been through its efforts as an advocate for small business enterprises and a guardian of free competition, and above all free entry into the business place, that we've been able to establish a nitch in an industry that would otherwise be dominated by the large corporations.

And when Congress passed the Small Business Act in 1958 I think it was its intent to have a very strong national policy of promoting and assisting small businesses, and, in particular, those that have relationships with the Federal Government. I think it would be prudent to just cite one sentence from the act that states our interest in SBA.

> It is the declared policy of the Congress that the Government should aid, counsel, assist, and protect insofar as is possible the interest of small business concerns in order to preserve free competitive enterprise to insure that a fair proportion of the total purchases and contract or subcontracts for property and services for the Government be placed with small business enterprise to insure that a fair portion of the total sales of Government property be made to such enterprises and to maintain and strengthen the overall economy of the Nation.

Now, Congressman, that is one very ambitious and admirable objective. And it's not one that we believe can be administered in a unintegrated manner by several different agencies. I don't think it's sufficient to ask each Government agency that deals with independent enterprises in this economy to police itself and to independently pursue these objectives in their day-to-day operations. To do it that way I think would severely dilute the effectiveness of those programs.

One program administered by SBA that is very important to us is the Small Business Timber Sale Set-Aside Program. The program assures the small business community the opportunity to bid on a fair proportion of Federal timber sales. It exists today due to SBA's advocacy role in promoting the maintenance of a viable small business sector in our industry. SBA has fought to protect that program when it has come under attack. Our fear is if you put it in some other agency that has a lot of other objectives, a lot of other things on the stove, we aren't going to get the strength of the advocacy role that SBA has played in that program that we've had in the past.

So we feel that if it should be moved to a different agency that it could be jeopardized along with all of the other programs that the previous witnesses have discussed.

The plight of the timber industry is questionable at best, and that's particularly true for the small business sector. We're facing all sorts of problems including our dependence on Federal timber, the erosion of our markets, the import of Canadian lumber, high transportation costs, and a host of other problems that are unique to small business, and one of those is the bonding situation. And I notice that the witness that was listed ahead of me was from a bonding and insurance company, and I almost wish that he was here so I could hear what he had to say.

But the bonding industry is becoming very leery with the wood products industry, and, in particular, the small businesses are having a very, very difficult time getting bonding, and bonding is absolutely essential in today's marketplace to buy Federal timber sales. The bonding requirements on Federal timber sales are very significant. SBA could be instrumental in this regard by implementing a bond guarantee program that would work for the timber industry. As you know, they do have bond guarantee programs, but unfortunately they were not set up to serve the timber industry. They were set up to serve, in my mind, the building industry.

And we think that there could be very simple—very simple changes made in the program that would make it applicable to the wood products industry. Right now SBA will provide a bond to guarantee a contract that does not exceed $1 million in value. That's the contract value. Most timber sale contracts with the Federal Government exceed $1 million. However, the bond that is required to be posted is only 10 percent of the value of the contract, never to exceed $500,000.

So the situation we see ourselves in is SBA will give a building contractor, for example, a bond in the amount of $1 million to build a $1 million apartment complex. They will not guarantee a $200,000 bond for a wood products industry that is purchasing a $2 million timber contract.

Mr. **Wyden**. Excuse me for interrupting. So what you'd like to do is have small timber companies be eligible for this program that is available to these other larger concerns.

Mr. **Geisinger**. Well, no, it's——

Mr. **Wyden**. I'm looking for a way to——

Mr. **Geisinger**. They're currently eligible now. If the contract is under $1 million, and if it's no more than 1 year in length—there's two problems.

Now, it seems to be inconsistent that for one industry they guarantee a $1 million bond for a $1 million contract. They won't guarantee a $200,000 bond, for example, on a $2 million timber sale contract. The liability in the second case is only one-fifth of the first.

Mr. **Wyden**. I just asked the question because I'm looking for a way to see if we can do your suggestion without adding new money.

Mr. **Geisinger**. No, all it would take is to say that the amount of the bond would not exceed $1 million rather than the amount of the contract not exceeding $1 million. That change in language would solve the problem.

Mr. **Wyden**. And that wouldn't add to the overall guarantee authority? It would just——

Mr. **Geisinger**. Well, I think in all honesty it probably would because you would have more participants in the programs than there currently are today.

OK. And that's my pitch for bonding, and by way of summary, on behalf of our members, I urge that you do everything possible to maintain SBA as an independent agency because it is an advocacy agency, and the effectiveness of the program that they administer today would be severely diluted if they were passed on to a number of other agencies.

Mr. **Wyden**. Thank you for your very excellent testimony. I have a couple of questions.

One, it's well known that there has been some discussion between larger timber companies and smaller timber companies with respect to making some changes in this program. Where are those negotiations, and maybe you could enlighten us specifically as to what these changes are because I think this could have a great impact on the wood products sector in Oregon.

Mr. **Geisinger**. The negotiations are essentially completed. The Forest Service floated a proposal in the Federal Register back in November. They collected public input for 90 days, and they are now finalizing the proposal based on that input, and we expect the—those regulations to be published in final form some time in the middle to late April.

I think what they were trying to achieve in the changes suggested as to make the amount of timber that is made available to small business more flexible in the future so that as the small business sector grows the amount of timber made available to them would grow, as the small business sector shrinks in its capacity, that there would be less timber made available.

And, of course, it was a very sensitive issue for us because we've always felt that there would be no small business in the sector of the industry that is dependent on Federal timber without the existance of the Set-Aside Program.

Mr. **Wyden**. OK. Well, very excellent suggestions. Unless our other witnesses have arrived I think at this point we will take a 10-minute break and we will have additional panel members. We know some have wanted to speak during our open mike period at the end of the panel presentation. Let us take a 10-minute break in our labors at this point.

[Recess.]

Mr. **Wyden**. The committee will come to order. I'm very pleased that Ms. Chrys Anne Martin, attorney at law, is here. She has been very active in programs affecting women in small business and has been recognized as a great leader in this field, and, Ms. Martin, we're happy that you could be with us. Please come forward. We're anxious to hear your views.

Ms. **Martin**. Thank you.

Mr. **Wyden**. Ms. Martin, what we will do is we will make a copy of your prepared remarks a part of our record, and if you would like to just summarize some of the key concerns of your organization, and summarize the projects that you have undertaken, we'll have some time for questions.

Ms. MARTIN. Great, I'd be happy to do that.

TESTIMONY OF CHRYS A. MARTIN, ATTORNEY, AND PRESIDENT OF THE INSTITUTE FOR MANAGERIAL AND PROFESSIONAL WOMEN

Ms. MARTIN. I can definitely say that I'm very proud to be here today to testify on behalf of and in support of the types of programs that SBA has been providing here in Portland. They have certainly been of assistance primarily to women and minority business owners who frequently do not have the access to traditional avenues of education and training for business people, and to traditional avenues of finance, and those seem to be the areas of major concern.

In my role as president of The Institute for Managerial and Professional Women, I have dealt with a number of women moving into their own businesses, and met with a number of women who have been in business for themselves for many years, and who are either facing problems or wishing to expand and running into crises in that regard.

I believe that from that experience I have become aware of some of the problems women business owners face, and some of the benefits the SBA has provided for those women.

Primarily, last year our organization as a nonprofit organization here in Portland was selected to cosponsor with the SBA 1 of 21 women business ownership conferences across the country in a presidential initiative. Those conferences reached thousands of women across the country. We had about 1,000 participants here, including exhibiters, attendees, and speakers.

That event was the most memorable event I've been involved with in my professional career as far as the energy, and the excitement that came out of that 2-day conference.

My prepared remarks reflect personal anecdotes that I have heard of and seen of women who within a few weeks quit their jobs and opened their own businesses, or were able to make the contacts that they needed to find that business expansion.

Our conference chair, her business has risen dramatically just in the last few months from the conference because of the contacts she made there.

The best part of that cosponsorship with the conference were the two outcomes. The first outcome is the legacy outcome. There are a series of ongoing programs through the community colleges, through the National Association for Bank Women, the Women CPA's, and The Institute, and providing followup programs for women business owners so that they're not just getting a one shot shot in the arm. They're getting continued help throughout the month, and throughout the years that they need to get their businesses up and going, and to keep them successful. In one fell swoop, a major portion of their programs is going to be leaving a lot of people hanging. If there is to be any kind of a cutback I think it definitely should be well thought out and some kind of a phased in system where we can be assured that those kinds of programs don't just go away and disappear.

[Ms. Martin's prepared statement, with attachments, follows:]

PREPARED STATEMENT, WITH ATTACHMENTS, OF CHRYS A. MARTIN, ATTORNEY, AND PRESIDENT OF THE INSTITUTE FOR MANAGERIAL AND PROFESSIONAL WOMEN

I am proud to be here today to testify on behalf of the excellent programs that the Small Business Administration provides, in particular, those programs providing assistance to women and minority small business owners.

During the recession and subsequent economic recovery, it was small business that continued to experience success. In 1981 and 1982, when large business lost over 1.6 million jobs, small business produced a total of 2.6 million new jobs. More than one-half of these newly created small business jobs came from the rapidly expanding service sector. During 1983, with the improvement in the economy, total employment increased by 4 million jobs and small business again contributed significantly to this growth.

A March, 1984 report, "The State of Small Business: A Report of the President", discussed the importance of small business and economic recovery as follows:

> "Small businesses furnish two out of three workers with their first jobs. Many of these first-time positions are in the service sector, the traditional doorway to the job market for the young, minority and unskilled job seeker. Service industries now employ about twenty million workers, approximately the same number of workers as the manufacturing sector. Small firms permit many workers such as women and older people to accommodate their work schedules to their personal demands and preferences."

Small businesses owned and operated by women and minorities have been at the forefront of this growth. Female owned small businesses are the most rapidly growing segment of the economy. They have increased more rapidly than either male operated firms or the total number of businesses. For example, from 1977 to 1980, the number of female operated non-farm sole proprietorships increased 33%, while male operated non-farm sole proprietorship rose only 11%. While the number of self-employed women rose 10% from 1980 to 1982, the number of self-employed men increased only 1%. By 1980, one in twelve women in the private sector work force was a sole proprietor.

Primarily, female operated businesses remain in the traditional areas of retail trade (44%) and service industries (29%), where the largest economic growth has been achieved. Yet between 1977 and 1980 there were significant increases in the number of women owned businesses moving into such non-traditional areas as agricultural services, forestry, mining, construction and a doubling in the number of female owned firms in manufacturing.

In Oregon, the situation is much the same as elsewhere in the nation. In the 1980 tax year, there were 204,785 sole proprietorships in Oregon of which 20.6% or 40,000 were female operated. Yet, those 40,000 female operated businesses accounted for only 5.1% of the total business receipts, primarily due to inability to obtain financing to expand their businesses. Surveys done of the Institute for Managerial and Professional Women's membership show an increase of women's business owners from less than 10% of our members in 1980 to 46% of our members in 1985.

Traditionally, women and minorities have had more difficulty in obtaining conventional business financing than white males. Frequently there is no proven track record of prior business ownership or business experience, thereby increasing their risk as an acceptable loan candidate. Many women and minorities have turned to Small Business Administration for financing through direct and guaranteed loans.

Women, too, have not had the traditional access to education and training concerning business ownership issues. Many cannot afford to obtain advanced college degrees before opening their own business enterprise. Thousands of women in Oregon, alone, have been assisted through Small Business Administration technical assistance programs. For example, the Small Business Development Centers in Oregon's eighteen community colleges, funded in part by SBA funds, have counseled over 3,000 individuals during the last year. Two-thirds of those counseling sessions were provided to women business owners.

In June, 1983, President Reagan announced a national women's business ownership initiative which funded twenty-one women business ownership conferences throughout the country in co-sponsorship with non-profit organizations. The national initiative program had two major goals: The first goal was the development of effective business skills for present and potential women business owners. The second goal was the improvement of the business environment for women owned firms. As President of the agency that was selected to co-sponsor the Northwest Women Business Ownership Conference in Portland in October of 1984, I can testify that those two goals were met with resounding success.

The series of 21 national conferences, all with local private sector co-sponsors, offered high quality skills training and networking opportunities. Each conference drew an average of 1,000 participants. The conference's educational modules, featuring hands-on experience, were designed so that they could be used on an on-going basis in the local communities. A two-track approach was utilized, one for entry level business owners and one for growth businesses.

Most importantly, this unique partnership of private and public enterprise channeled conference proceeds back into the communities where each conference was held through legacy training programs, scholarships, educational events and future conferences for women business owners.

The conference subtitle, "Building a Brighter Future Together", epitomized the conference goals which were overwhelmingly met. As one who attended the Northwest Conference, I can testify without a shadow of a doubt that this was the most memorable professional experience I have had in my entire career. There are hundreds of success stories to attest to the positive experiences of other attendees. One woman quit her job the Monday following the conference and two months later was in business for herself and has already expanded that business to hire additional staff. Two other women who were planning on starting their own businesses in the future, accelerated their plans and both are currently in business.

Hundreds of other women business owners were able to gain the education and training to expand their businesses or help them deal with business crises such as cash flow shortages, financing problems, business expansion issues and managerial concerns.

In response to evaluations of the 21 Women Business Ownership Conferences held across the country, participants listed financing and cash flow management as the areas in which they needed the most technical and financial assistance. In this region, the only place that those services can be accessed is through the Small Business Administration. Services are provided by the SBA in a number of ways. SCORE, the retired corps of executives, provides one-on-one counseling with business owners. The Small Business Development Centers provide an array of educational and technical services to small businesses, including the all important personal counseling and business education.

Perhaps the most exciting aspect of the women business ownership initiative was the aggressive plan for follow-up assistance to women business owners. Six community colleges sponsored a series of four on-going "legacy" courses to provide business owners and potential business owners with more in-depth training on the basic subjects they were exposed to at the Conferences. Hundreds of men and women attended those courses over the last few months. With conference proceeds generated from last year's event, the Institute for Mangerial and Professional Women is already planning a women business owner's conference for 1985. We again expect to attract over 1,000 participants in partnership with the SBA. Without this cosponsorship, the Conference would be of much less magnitude and reach far fewer business owners. New enterprises cannot just be given one shot in the arm and be left to fend for themselves. They need on-going assistance until they are strong enough to survive with their own resources.

SBA also provides financial, management and technical assistance to participant firms. In the Portland district alone, forty-five firms are currently participating in that program. The total growth sales of all of those firms is 36.9 million dollars per year, of which 69.4% was generated through the procurement program. These forty-five firms generate full-time employment for approximately 1,010 people, many of which are minorities. With a program staff of four people, the Portland district office has had a significant impact on the well-being of the local community. On the national scale, the technical assistance profolio contains approximately 2,500 approved companies offering a variety of goods and services to the federal government. Contracts worth 2.3 billion dollars were awarded to those firms accounting for approximately 43% of all federal procurement for minority owned firms. The continuation of this program is vital to the goal of increasing the involvement of minority businesses in economic growth. SBA has played a significant role in local minority business development helping disadvantaged firms to access resources necessary to develop their businesses. As a clearing house for small businesses, the SBA has been very effective at channeling their specific business needs to a variety of government and private sector programs that are available to assist them. Management assistance training in 1984 in the Portland district office alone reached 7,600 attendees through over 200 workshops, seminars and conference programs. Additionally, over 4,500 other business owners received counseling and advice through SCORE and ACE programs.

In conclusion, as an attendee at the SBA's Women Business Ownership Conference, I can testify as to what a dramatic impact that conference had on one thousand Northwest business women. As an attendee at the Washington, D.C. Conference of all 21 Women Business Owner Conference sites, I can attest to the fact that these conferences have had a positive national impact on our economy and on business optimism. As the president of a women's professional group, I can testify as to the hundreds of women that I have personally seen receive help from the Small Business Administration through direct loans, guaranteed loans, SCORE and ACE assistance and through counseling and education at the Small Business Development Centers. The SBA has helped these business owners to start their businesses, obtain the necessary financing needed for expansion, employ thousands of employees making women business owners the fastest growing segment of the economy. Most of the SBA's work is leveraged in conjunction with private enterprise or non-profit groups. This is making the best use of the federal funding. Congress and the administration cannot turn their back on small business enterprise during this important period of economic recovery. These businesses have become an integral segment of our economy but without continued assistance, many will fail. As one who has experienced the success of Small Business Administration efforts I urge you not to dismantle an important tool in the nation's economic revitalization.

"Ambitious career-oriented women are finding the tools they need to reach their personal and professional objectives."

Alice Armstrong, Ph.D., Management Psychologist

Success Within Reach

Active involvement brings personal satisfaction, training for professional success, and the knowledge that you are helping other career-minded women achieve their goals.

The Institute was founded by Dr. Alice Armstrong, not as an agent of change, but to enable women to negotiate transitions in social and career growth more successfully. Thousands of women have experienced the impact of this professional women's organization on their personal and professional lives.

The Institute
for managerial &
professional women

The Institute
P.O. Box 1747
Portland, Oregon 97207
(503) 226-7701

Your
Success
Is
Our
Goal

The Institute for Managerial and Professional Women

"The best impact...is the networking. You meet bright professionals who are able to help with problem solving."

Diane Anderson, Director
ATEQ Corporation

"I am involved with people who can share themselves, share their strengths, who are willing to learn with me."

Cathie Kooiman, Venture
Support, Intel Corporation

"Serving on the Board has been one of the most challenging experiences of my professional life."

Chrys Martin, Attorney,
Bullivant, Houser, Bailey

Your Success Is Our Goal

The Institute for Managerial and Professional Women is dedicated to the needs of women who choose business careers and strive for personal satisfaction and professional success.

How Do You Define Success?

We recognize that each of us defines success differently. You may want to move up the corporate ladder or expand your current position. Be the Executive Director of a nonprofit organization or a freelance professional. Franchise an existing business or start your own. Whatever your definition, we can help.

Programs For You

We provide quality programs to meet the diverse needs of our membership:

- Skill-building workshops for intensive, hands-on training in management skills.
- Seminars where top-level professionals share their experiences and wisdom.
- Socials for networking within your own profession and across career boundaries.
- Annual Conference for training in every aspect of business and management.

Best Of All...

While our programs are open to the public, members attend at substantially reduced rates. Additionally, members receive a Membership Directory and monthly newsletter.

Perhaps the greatest benefit, however, comes with active participation on a committee or the Board of Directors.

Committees provide a fertile training ground in management and organizational skills. Serving on the Board is an excellent means of fine-tuning management and leadership abilities while working within a corporate structure.

SBA

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NORTHWEST
WOMEN'S BUSINESS OWNERSHIP CONFERENCE '84
October 26 and 27, 1984
Thunderbird Motor Inn at Jantzen Beach
Portland, Oregon

NORTHWEST
WOMEN'S BUSINESS OWNERSHIP
·CONFERENCE 84·

BUILDING A BRIGHTER FUTURE

October 26 and 27, 1984
Thunderbird Motor Inn at Jantzen Beach, Portland, Oregon

Sponsored by: U.S. Small Business Administration
Institute for Managerial and Professional Women

☆GPO 1984 796-190

The Small Business Administration and The Institute For Managerial and Professional Women are pleased to sponsor one in a series of President Reagan's National Initiative Conferences for Women Business Ownership.

Among the national and regional speakers at this dynamic two-day conference will be:

- Moya Lear, Lear Fan, Ltd.
- Mark Hatfield, United States Senator, Oregon
- Patricia Nettleship, President, Northpacific Construction Company
- Bob Packwood, United States Senator, Oregon
- Judy Wineland, President, Overseas Adventure Travel

WHO SHOULD ATTEND

This Conference is appropriate for women *in every aspect of business:* business owners, corporate managers and professionals. Two distinct educational tracks are designed to meet specific needs—one for women business owners and one for managers/professionals. You are not limited, however, to one track; workshops are open to all registrants. Workshops will fill quickly through pre-registration—we urge you to return your registration early in order to reserve your first choices.

Registration Includes:

7 Workshops led by experienced and qualified instructors
1 General Session with Keynote Speaker
2 Luncheons with Keynote Speakers
1 Banquet with Keynote Speaker/s
Admission to Marketplace
Admission to Exhibit Hall

NORTHWEST WOMEN'S BUSINESS OWNERSHIP CONFERENCE '84

October 26 and 27, 1984
Thunderbird Motor Inn at Jantzen Beach, Portland, Oregon

SPONSORED BY

U.S. Small Business Administration
Institute for Managerial and Professional Women

WITH THE PARTICIPATION OF

Alice Armstrong, Ph.D., Management Psychologist
Alyce Enterprises
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American Telephone & Telegraph
Decisional Business Analysis, Inc.
Don Barney & Associates
Esco Company
First Interstate Bank
Fox & Company
Caruth Institute of Owner-Managed Business at Southern Methodist University
Joy Evans, MA, Marriage, Family & Child Counselor
Institute of Certified Business Brokers
International Franchise Association
Leonard Borer, Consultant
National Association of Bank Women
National Association of Women Business Owners
National Small Business Training Network of the American Association of Community and Junior Colleges
Paine, Webber, Jackson & Curtis, Inc.
Paris, Casey & Associates
Portland City Police
Portland State University
Property Management Services
Roundtable for Women in Foodservice
Soaring Horizons
Strategic Moves, Inc.
Susan Marcus, Consultant
The Business Journal
Women Entrepreneurs of Oregon
Xerox Corporation

"Small business is the gateway to opportunity for those who want a piece of the American dream. One of the most exciting trends in our country is the surge in numbers and size of women-owned businesses. Almost 3 million women-owned businesses bring about $40 billion a year – a solid contribution to the health of our economy at every level of society.

I am directing the Small Business Administration to initiate and sponsor conferences across the country. We want to assist present and potential women business owners to compete equitably in the total business environment."

Ronald Reagan

President Ronald Reagan
June 20, 1983

Proclamation by Oregon's Governor Vic Atiyeh

Women-owned businesses have become the fastest growing sector of America's small business community throughout the country. There are over 3,000,000 large and small companies owned by women, accounting for $40 billion in receipts and over $6 billion in net income.

In Oregon alone there are 44,000 women-owned businesses, which are making a solid contribution to the health of our economy. As the number of women-owned businesses increases, the diligence and dedication of women entrepreneurs will continue to improve the social and economic wellbeing of our state.

Therefore, as Governor, in recognition of the contribution of women in business to the health of Oregon's economy, I hereby proclaim the week of October 21–27, 1984, as "WOMEN BUSINESS-OWNERSHIP WEEK" in Oregon.

I urge our citizens to increase their awareness of the importance of women-owned businesses to the economy of our state and nation.

Victor Atiyeh
Governor

Proclamation by Portland's Mayor, Frank Ivancie

Whereas, today a growing number of enterprising and talented women are owning and operating their own businesses and are entering non-traditional industries at an ever-increasing rate; and

Whereas, women-owned businesses are contributing significantly to the health of our state and local economy; and

Whereas, the continued viability of women-owned businesses is essential to the vitality and strength of our economy;

Now, Therefore, I, Francis J. Ivancie, Mayor of the City of Portland, Oregon, the "City of Roses", do hereby proclaim the week of October 21–27, 1984, to be "WOMEN BUSINESS-OWNERSHIP WEEK" in Portland, and urge all our citizens to recognize the important social and economic contribution women-owned businesses make to our city.

Francis J. Ivancie
Mayor

This conference is part of President Reagan's National Initiative Program in support and assistance of women entrepreneurs. The purpose of the program is to increase the number and prosperity of women business owners through continuing education and development of private sector support.

For further information on The National Initiative Program, contact the SBA (503) 294-5102 or The Institute for Managerial and Professional Women (503) 226-7701.

Directions to Thunderbird Motor Inn at Jantzen Beach

The Thunderbird Motor Inn is located in Jantzen Beach Center on the Columbia River near the Interstate Bridge, north of Portland, and is accessible from Interstate 5 going north or south. From either direction take the Jantzen Beach exit off I-5. The Thunderbird Hotel will be immediately visible.

Lodging Information: 200 rooms available at the Thunderbird Jantzen Beach
$50 Single, $60 Double
Hotel Reservations: (503) 283-2111, ext. 185

Registrants must make their own lodging reservations.

Exhibit Hall

Fifty 8' x 8' booths, fully draped and lighted, are available to small businesses, corporations and organizations whose services or products are used by women in any aspect of business. Booth rental of $295 includes *one* conference registration, 500w electricity, 6' table, 2 chairs and a sign.

The Exhibit Hall will be open throughout the two-day conference. For more information about reserving a booth, contact Elaine Peirce, Second Look Consultants, (503) 626-3601.

Marketplace

The Marketplace creates an opportunity for women business owners to meet with purchasing managers of major corporations and representatives from government agencies. Learn how to do business with these large organizations and open up new markets for your products and services. Bring your questions and your cards.

Marketplace will be open throughout the two-day conference by appointment only, on a first come—first served basis. Appointments will be taken at Registration, beginning Thursday night.

For information about Marketplace, contact Mary Jo Witty, Small Business Administration (503) 294-5102.

BUSINESS OWNERSHIP TRACK

START-UP AND EARLY GROWTH BUSINESSES

1. **Entrepreneurship Self-Assessment**** (National Small Business Training Network of the American Association of Community and Junior Colleges)
   Compare your entrepreneurship aptitude with national profiles. What are the prospects and pitfalls of business ownership? What kind of business do you want and for whom do you want to do it?
2. **Home-Based Business**** (National Small Business Training Network of the American Association of Community and Junior Colleges)
   Home businesses have low start-up costs, can involve the whole family and can become quite profitable. Consider the advantages and disadvantages of locating your business at home. What special skills are necessary?
3. **Start-Up Financing** (National Association of Bank Women)
   Businesses in start-up phase are often considered high risks by traditional sources of business financing. Pros and cons of other options (family and friends as silent partners or investors, supplier credit, second mortgages on real estate/other assets, etc.) will be considered.
4. **The Business Plan**** (National Small Business Training Network of the American Association of Community and Junior Colleges)
   Creating a realistic business plan is mandatory to get substantial financing. It can also mean the difference between profit or loss. Come if you don't yet have a business plan, or if you have one but it needs re-thinking.
5. **Surviving Business Crises**** (American Society of Woman Accountants)
   Young businesses face many pitfalls. Learn to predict what these are likely to be in your business and how to avoid or minimize them.
6. **Marketing Yourself and Your Service Business** (Fox & Company)
   Strategies for successful marketing of yourself and your service business. Includes marketing checkup you can adapt to your business.
7. **Financial Information Systems for Service Firms** (Fox & Company)
   Fundamentals of a service business accounting system. Analyze your tax, accounting and management needs and consider automation to meet those needs. SBA publication *For Women: Managing Your Own Business* (included in registration packets) will be used.
8. **Pricing Your Services** (Fox & Company)
   Understand various pricing strategies for your service business. A checkup list will be distributed to aid in the development of a pricing strategy.

MATURE BUSINESSES

9. **Money and Your Business: Financing for Expansion**** (National Association of Bank Women)
   What are bankers looking for and how can you prepare to approach your banker for expansion financing? Hear from a local banker what you need to know to get a bank loan.
10. **Creative Financing** (Paine, Webber, Jackson & Curtis, Inc.)
   Bankers and savings and loans are the most conservative sources of financing. Where and how can other funds be raised, and what are the pros and cons of these? Consider: sale or pledge of personal assets, franchising, mergers, inventory, equipment and receivables financing, use of margin, venture captial and "going public".
11. **Introduction to Cash Flow Analysis** (John A. Welsh and Jerry F. White)
   A unique and entertaining opportunity to learn (almost) everything you need to know about keeping your cash flow positive. Painless introduction to powerful financial analysis tools which can keep you solvent! (3-hour workshop)
12. **Protecting Your Business Assets** (Paine, Webber, Jackson & Curtis, Inc.)
   Financial stability of your business is hard to come by. Protecting your growing business assets—physical plant, employees, inventory, yourself—has to be a primary objective. Learn how to determine which kinds of protection you need, how to select a vendor for this protection and when to re-evaluate.
13. **Doing Business with the Feds**** (National Small Business Training Network of the American Association of Community and Junior Colleges)
   Learn the secrets of successful federal contractors. Who is the *real* customer? Small purchases as a turnkey. What do I do or make that the Feds buy? Step-by-step to a successful bid.
14. **Working with Your Accountant** (American Society of Women CPA's)
   How do you keep track of your business's financial health? How can you select the best possible advice at the best possible price? What do you need to know to carry on a productive relationship with an accountant once she/he is working for you?
15. **Cash Management for Service Firms** (Fox & Company)
   Learn a logical, efficient approach to cash management for your service firm. A cash management checkup list will be included for your use.
16. **Mergers and Acquisitions** (Fox & Company)
   What is the current merger and acquisition environment for service businesses? Effective use of a business evaluation checkup list will be covered.
17. **Strategic Business Planning** (Fox & Company)
   Strategic business planning is critical to success. A checkup list will be presented for your use.
18. **Business Advocacy** (National Association of Women Business Owners)
   Who protects the interests of the small business person? Involvement by women entrepreneurs in local and national small business advocacy groups is critical if the needs of *all* small business owners are to be part of local and national economic agendas. Learn what the issues are for the '80s and how to become involved.
19. **Assessing Your Needs** (National Association of Women Business Owners)
   Fantastic opportunity to assess and maximize your entrepreneurial strengths and learn how to overcome or address weaknesses. Important exercise specifically for the established business owner.
20. **Franchising** (International Franchise Association)
   Thinking of acquiring a franchise? Don't be in a hurry! Learn how to evaluate franchises before you leap! What kind of service does the franchise offer? Is the company well-managed? How can you find out if the product or service is reputable?
21. **The Business of Food—Pursuing Success** (Roundtable for Women in Foodservice)
   Overview of market trends. How to develop your uniqueness; understanding hidden food industry hazards: promoting and merchandising. Expansion of food manufacturing business; how to take advantage of being small; should you franchise your business; how to increase growth. Understand why you are successful; maximize your business.
22. **Buying and Selling a Business** (Wally Stabbert, President, Institute of Certified Business Brokers)
   Establishing the market value of a business before you buy or sell. How to assess business brokers—what kinds of services should you expect, and how you can determine qualifications. For both start-up and established businesses.

**These workshops will be expanded upon following the conference through special "Legacy Courses" presented by Portland Community College, National Association of Bank Women and American Society of Women Accountants. Details will be available at each workshop.

All workshops are 1½ hours unless otherwise noted.

MANAGEMENT/PROFESSIONAL TRACK

23. **Strategic Listening** (Leonard Borer, Private Consultant)
    Listening is more than just hearing—it's a helpful, important and strategic understanding skill. Understand how active and passive listening fits into the complete communication process.
24. **Be Your Own Futurist** (Randy Scheel, President, Strategic Moves, Inc.)
    Learn how to read the economic, social and political signals that set the groundwork for the issues of the future. Once you can organize, track and analyze what's happening in the world around you, you can project the trends that affect you.
25. **Presentations with Style** (Ben Padrow, Speech Department, Portland State University)
    Whether it's a sales presentation to potential clients or an informational presentation to fellow employees, make sure it's not just another "ho-hum" event. Learn the elements of a professional presentation including the psychographics and atmospherics.
26. **Managing Consultants: Proposal to Payment** (Paul Christianson, President, Property Management Services)
    If you've ever felt you're being managed by the consultants, now is the time to reverse the trend. Learn the basic guidelines and strategies for the selection and use of outside consultants, agencies, and "experts".
27. **Perfect Project Pro Forma** (Don Barney, Don Barney & Associates)
    Effective project planning and management principles spell success. Learn to adopt the characteristics of a successful project manager, how to plan and track project progress, and examine the strategies for keeping a project on track.
28. **Staying Close to the Customer** (Dorinda Solheim, Branch Manager of Sales, Zerox Corp.)
    An important—yet sometimes overlooked—management fundamental is staying close to the client. Learn how to improve customer relations through visibility, service and the belief that the sale really begins *after* the sale.
29. **Negotiating with Self and Others** (Claudine Paris, Private Consultant, President, Paris, Casey & Associates)
    Someone has said that if negotiating as a win-win activity were taught along with the 3 R's in elementary school, the world would be a safe home for us all. Learn the key components to successful negotiating where everyone can win.
30. **Taking the Risk out of Risk-Taking** (Susan Marcus, Private Consultant)
    The difference between self-propellers and self-protectors is their response to risk. Everyone is afraid of risking something—learn to ask and answer those risk-reducing questions.
31. **Calculated Communication: Engineering Your Message** (Alyce Cornyn-Selby, Director & Owner Alyce Enterprises/ Media Producer, Port of Portland)
    The win goes, not to the person with the most appropriate idea, but to the person with the most efficient communication of an idea. Improve your ability to communicate messages effectively in a variety of situations.
32. **Under Fire: Dealing with Difficult People** (Linda Rankin, Manager of Human Resources and Communications Resources/Assistant Corporate Counsel, Esco Company)
    Everyone can claim ownership to a certain amount of stress, and the situation can be amplified when it's necessary to also deal with someone else's stress. Learn how to become a more powerful communicator in critical high-pressured situations.
33. **The Dynamics of Power and Influence** (Alice Armstrong, Ph.D., Management Psychologist)
    Hard work and talent are important attributes for managerial success, but power is the energy source that legitimizes managerial control. Successful managers and business owners know how to establish and use power as a positive management tool.
34. **Living with a Strategic Plan** (Ed Grubb, Professor of Marketing, Portland State University)
    Developing a systemized plan to fulfill your organization's mission is sometimes easier to say than to do. Avoid crisis management and discover the techniques to develop a plan—and how to make it work for you.
35. **Business is a Contact Sport** (Penny Harrington, Captain, Portland City Police)
    Networking was a women's management technique in recent decades, but today, a strong circle of professional contacts is the necessary support for the old adage "it's not what you know, but who you know."
36. **Finance Fundamentals for the Non-Financial Manager** (Marilyn Keyser, Audit Manager, Arthur Anderson & Associates)
    There are basic financial concepts that are important and necessary in the business world. Financial terminology definitions may be all you need to keep up with your CFO.
37. **Marketing Through Lifestyle Analysis** (Bob Harmon, Associate Professor of Marketing, Portland State University/Vice President, Decisional Business Analysis, Inc.)
    More and more businesses use attitude and lifestyle market segmentation to develop products, strategize messages, and design advertising packages. Learn how opinions, values, and leisure time activities guide the marketing of products and services.
38. **Leading Youself Down the Career Path** (Janice Wilson, Vice President, First Interstate Bank)
    Developing a strategic plan for your career goals is guaranteed to get results. Discover the considerations that will face you, and learn to lead yourself—not be led—down the career path.
39. **Image Mastery** (Joy Evans, MA, Marriage, Family and Child Counselor)
    What image is most successful for the situation in which each of us chooses to function? And for the situation in which we desire to function? Learn the appropriate image to project in selling, negotiations, assertiveness, authority, persuasion, power and leadership.
40. **Selling: Everybody Does It** (Cheryl Kilbourn, Owner, Soaring Horizons)
    We're all salespeople whether our job titles tout it or not. And the most important product we sell is ourselves. Take the fear out of selling and learn how it can become a win-win situation. Build your self-confidence and learn how to sell yourself to yourself and to others.
41. **Telemarketing for Business** (Clarence Smith, Senior Telemarketing Consultant, AT&T Communications Headquarters)
    Telemarketing is a key tool for improving your business productivity. Learn why a small business needs to consider adopting telemarketing; what a business can do with telemarketing (e.g. enhancing customer service, improving collections); and how to build a telemarketing center. Learn the nine key disciplines (e.g. stimulation, response, fulfillment). Personnel motivation, training and database issues are addressed.
42. **Superwoman is Dead—Long Live Me!** (Joy Evans, MA, Marriage, Family and Child Counselor)
    For working mothers. Giving up the superwoman role; dealing with guilt and idealized images of motherhood. Giving one's self permission to foster healthy self interest. Delegating responsibility and enlisting cooperation from children. Keeping an active social life. Goal setting for future.

INFORMATION

Conference Registration
Pre-registration is important—it guides the Conference Committee in scheduling the workshops. On-site general admission will be limited by the availability of space. Register early. For further information call (503) 226-7701.

Conference Materials
Registration received postmarked by October 12 will be confirmed by mail. All Conference registration packets and meal tickets will be available for pickup at the registration desk, beginning Thursday evening, October 25.

Tax Deduction for Expenses
Treasury regulation 1.162-5 permits an income tax deduction for education (registration fees and cost of travel, meals and lodging) undertaken to maintain or improve professional skills or meet express requirements of an employer.

CONFERENCE SCHEDULE

Thursday, October 25, 1984	
4:00 pm- 9:00 pm	On-site Registration
Friday, October 26, 1984	
7:00 am- 8:00 am	Pre-registrants pick up packets
	On-site Registration
	Exhibit Hall Open
8:00 am- 9:15 am	General Session
9:30 am-11:00 am	Workshops
	Marketplace Open
11:00 am-12:00 pm	Break
	Exhibit Hall Open
	Marketplace Open
12:00 pm- 1:30 pm	Lunch and Program with keynote speakers
1:30 pm- 2:15 pm	Break
	Exhibit Hall Open
	Marketplace Open
2:15 pm- 3:45 pm	Workshops
4:00 pm- 5:30 pm	Workshops
5:30 pm- 6:30 pm	Cocktails
6:30 pm- 9:30 pm	Banquet and Program
Saturday, October 27, 1984	
8:00 am- 9:30 am	Workshops
9:45 am-11:15 am	Workshops
11:15 am-12:00 pm	Break
	Exhibit Hall Open
	Marketplace Open
12:00 pm- 1:30 pm	Lunch and Program
1:30 pm- 2:00 pm	Break
	Exhibit Hall Open
	Marketplace Open
2:15 pm- 3:45 pm	Workshops
4:00 pm- 5:30 pm	Workshops

REGISTRATION FORM

Register early. Space limited for all sessions of the Conference.

·NORTHWEST WOMEN'S BUSINESS OWNERSHIP CONFERENCE 84·

Thunderbird Jantzen Beach • Portland, Oregon • October 26–27, 1984

NAME (as you want it to appear on your badge)	I wish community college credit (1 hr. cr.) ☐ Yes ☐ No
MAILING ADDRESS	Handicapped services required ☐ Yes ☐ No
	I own a business ☐ Yes ☐ No
CITY · STATE · ZIP CODE	I plan to start a business ☐ Yes ☐ No
COMPANY NAME	EMPLOYMENT CATEGORY ☐ Professional ☐ Public/Social service ☐ Education ☐ Retail business ☐ Manufacturing ☐ Other (please specify) ☐ Sales
TITLE · Day Phone No ☐ Business ☐ Home	

BUSINESS OWNER INFORMATION

No. of employees ______ How long established ______ ☐ Sale proprietorship ☐ Partnership ☐ Corporation ☐ Other ______ ☐ Home Based

Session Preference: You will be able to attend a total of seven (7) workshops. A computerized registration system will schedule you for maximum available sessions. Indicate your top 14 preferences by workshop number in the order of priority (i.e., 1 is the session you want most). **Note:** Workshops will be offered based on registration requirements.

1. ______ 2. ______ 3. ______ 4. ______ 5. ______ 6. ______ 7. ______

8. ______ 9. ______ 10. ______ 11. ______ 12. ______ 13. ______ 14. ______

Registration Fees (includes 2 lunches and banquet):

☐ Pre-registration (postmarked by 10/12/84)	$ 95.00	Registration	$ ______
☐ Registration (postmarked after 10/12/84)	$125.00	College Credit	$ + 10.00
☐ Community College Credit	$ 10.00	Credit Card Sur. Chg.	$ + 5.00
		Total	$ ______

Payment Method (payment must accompany Conference Registration):

☐ Payment Enclosed

☐ VISA Card No. ______ Expiration Date ______

☐ MasterCard

☐ American Express Cardholder's Name ______

Make checks payable to:
IMPW (The Institute for Managerial and Professional Women)

Mail conference registration and payment to:
IMPW
P.O. Box 1813
Portland, OR 97034

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DAR	DRP	AR	AD		

Mr. **Wyden**. Ms. Martin, thank you for really excellent testimony.

There's a WBE program, isn't there? How does that work? Is that Women Business Entrepreneurs? I need to know a little more about it.

Ms. **Martin**. In the SBA?

Mr. **Wyden**. I think so.

Ms. **Martin**. Well, the part of that that I'm familiar with is through the management assistance program. There are special programs geared to assist women business owners in procuring and being involved in procurement with the Federal Government.

For example, one whole aspect of our conference was called marketplace, and that was structured just in particular to women business owners to find out about procurement, not just Federal Government procurement, but procurement with major corporations.

We had companies like Tektronix and Intel, and the lumber products industries, participating in that, and the problems of that is, again, it's an avenue to let these women business owners know what's out there, and to give them some preference, to give them some assistance.

Many of them just aren't tuned into the traditional networks in the business community, and they need some place they can go, and SBA seems to be the only place in this region. The State is not providing these kinds of programs.

And they can go there, and they can get technical assistance. They can get referred. They can get assistance to help them qualify for NBE and WBE status. They can find out about procurement. And there's some statistics that I have drawn out with some SBA information concerning that in my prepared testimony, the benefits that that has provided for those women in terms of hard cash dollars into their businesses participating in those Federal procurement programs.

Mr. **Wyden**. And I gather that at your last conference you made money and that's what you want to use to start this year. So, it's not new money for the next conference?

Ms. **Martin**. Right, exactly. SBA gave us the shot in the arm by allowing us to retain those proceeds as a private nonprofit that's going to allow us to hopefully carry on that conference year after year after year here in the Portland community.

That was, I think, an example of the theory that seems to underlie SBA, and that is to use their funds to leverage funds in the community, and I think that that is rare among Federal agencies, and I think they should be commended for that activity. They have used their funds then with the local nonprofit and had, oh, probably a list of 50 profit-making companies that participated in some aspect in conference.

So, they used their funds to leverage now for years to come, and I think that's also the premise underlying the Guaranteed Loan Program, the direct loan program. Many times those loan programs do not finance the entire business expansion or startup. They're merely seed money and then the business owner will go out and obtain conventional financing once they've got that—that at least start amount from SBA.

Mr. WYDEN. What kind of businesses are these women looking at?

Ms. MARTIN. Well primarily women have been in the traditional fields of service and retail, and those have been high areas of failure. But I think if you look at the statistics women-owned businesses are the fastest growing segment in the economy and they grew even during the recessionary time, and I think that shows that even though traditionally retail- and service-oriented businesses are supposed to have high failure rates, that I think if we looked at high statistics and nobody has any of what the failure rates were among women business owners in those areas, you might find that they're different because I know a number of women personally here who have had great successes in those two fields.

But, interestingly enough, in the last 3 years there's been a major shift. Women are going out of those traditional service and retail areas and opening up manufacturing companies, agricultural companies, companies that are involved in the traded sector, and that seems to be a new trend. They are going into the businesses that are larger, that employ more people, and that are involved in exporting and staying away from the retail areas.

Mr. WYDEN. What suggestions would you have. I've been asking everybody how do we do more with less. We've got this $200 billion Federal deficit, and the idea in every program whether it's small business, or anything else, is to figure out how to stretch our resources, how to be more innovative, how to involve the private sector more. And, of course, you've been on the frontlines with SBA.

What things would you pass on if you could—if you could take out a wish list and say; "Here's the things you ought to do to run more efficiently."

Ms. MARTIN. Well, first, I think the SBA has a very good reputation. It certainly does here in our community. By SBA simply cosponsoring our conference this year we have already got a number of private enterprise businesses behind us. They are impressed. If the SBA is cosponsoring this, this must be a good event. And the SBA isn't putting any cash dollars into that. It's simply lending their name. Lending their support, even without the money, is a tremendous benefit to us this year.

Also, I have heard a number of women who have been very impressed with the Guaranteed Loan Program as opposed to the Direct Loan Program because the Guaranteed Loan Program—you know, it's obviously more cost efficient for the Government too. You're using those funds to leverage community funds.

Mr. WYDEN. Do you think maybe we ought to reduce what we're doing in the Direct Loan Program and go to this other loan program that saves money?

Ms. MARTIN. Well, it's interesting because I talked to a couple of women business owners about that the other day. A group of us are together on an economic development task force for women in working with the State legislature, and we came up with a proposal there that if the State gets into direct and guaranteed loans that we wanted them to go away from the direct loans for women businesses and stick with guaranteed. And, interestingly enough, several women business owners said with their bank loan they had to pay them every month no matter what. And their SBA loans sometimes were the ones that fell behind, those direct loans, because they knew the SBA wouldn't be coming down on them. And they felt it made them be better businesswomen if they had that dealing with the commercial financing institution. So, first they learned to pay on time, to establish a good relationship with the banker, be out there working with the resources in the community, yet that guarantee gave them the extra edge they needed to get that commercial financing.

So, I thought that was interesting. I feel they would prefer the direct loans, but there seems to be a leaning toward, even though it may be tougher, that Guaranteed Loan Program.

Mr. **Wyden**. Because of the discipline that comes about as a result of——

Ms. **Martin**. Discipline, exactly.

Mr. **Wyden** [continuing]. The other program?

Ms. **Martin**. Exactly.

Mr. **Wyden**. Excellent.

Ms. **Martin**. Thank you very much.

Mr. **Wyden**. In every respect, and we thank you for coming.

Ms. **Martin**. I do have some information from our conference last fall. If you'd like me to leave one so the rest of the committee can be able to see the kind of program that was presented and the caliber of it. If you'd like me to leave it, I'll pass it around.

Mr. **Wyden**. Great.

Ms. **Martin**. Thank you for allowing me to testify.

Mr. **Wyden**. Thank you.

Our next panel because of the speed with which we have moved along—this is a little bit out of order—was to be a nonphysical disaster loan panel.

Are any of those individuals here?

Very good. Sir, why don't you come forward and we will have you carry the mail for the panel.

Mr. **Moser**. Thank you. My name is Moser.

Mr. **Wyden**. Mr. Vance Moser of Cadet Manufacturing Co. of Vancouver.

Mr. **Moser**. Yes.

Mr. **Wyden**. Welcome.

TESTIMONY OF VANCE MOSER, CADET MANUFACTURING CO., VANCOUVER, WA

Mr. **Moser**. Our nonphysical disaster was caused by a State government in our case. We built a new factory and then several years later the property was condemned for Interstate 205 freeway, so we were in a position where we had to move rapidly.

And the way that we did it was to get a loan from the SBA and then to use the proceeds of that loan to purchase a similar company in the same business that wasn't doing so well over here or over there in Vancouver, and move into their facilities. It was a very successful move.

Mr. **Wyden**. What suggestions would you have for the Small Business Administration to run in a more effective way?

Mr. **Moser**. I tend to agree with the lady that was just in front of me, the Guarantee Program is far and away the best way to go. I believe that direct loans may have been necessary in some times and in some places, but I believe the Guarantee Program really is what falls within the spirit of government's position in the business community. In other words, it leverages initiative on the part of the businessperson himself.

I believe that it shouldn't necessarily do something for him, but it should provide backing if he wants to do something for himself. I think that's very important.

Mr. **Wyden**. Isn't the issue to ensure that somehow it's possible for people to get a start?

Mr. **Moser**. Yes; absolutely.

Mr. **Wyden**. OK.

Mr. **Moser**. The start, the impetus should be provided by the individual, of course, not by the Government.

Mr. **Wyden**. That's for sure.

Mr. **Moser**. Yes; and I think after that that there are many, many ways to help provide that.

My personal experience is that soon the fears of the bankers is one of the most important ways because bankers are traditional. They are inclined not to want to do things with people they have never dealt with before, or kinds of people if it comes to that. And I think that's a very important thrust of this program.

Mr. **Wyden**. Was your loan direct, or——

Mr. **Moser**. Yes; ours was a direct loan.

Mr. **Wyden**. OK. All right. If you have no further comment to make we will excuse you and appreciate your coming.

Mr. **Moser**. Thank you very much.

Mr. **Wyden**. We have had a number of citizens who have expressed an interest who were not signed up up to this time, and I'd like to take that gentleman over there on the right because he talked to me during the break.

TESTIMONY OF WALTER GELINSKY, PORTLAND, OR

Mr. **Gelinsky**. My name is Walter Gelinsky. I live at 950 SW 21st Avenue, Portland.

Mr. **Wyden**. Are you operating a business now?

Mr. **Gelinsky**. No; I'm not.

Mr. **Wyden**. You're not. OK.

Mr. **Gelinsky**. The SBA I want to say—it's only going to take a minute—is a very fine organization, and I'd love to hear the winners. I'm a loser.

I lost a business. I did not take bankers. I paid all my debts except the SBA because I didn't have enough money. The SBA, which was fine with me, took the building and equipment, sold it for approximately $120,000. Since then I have wanted to settle with the SBA and the Federal Government, the Justice Department. This is 21 years ago this happened. Twenty-one years ago, gentlemen.

I'm still—I'm not fighting anymore. I'm just sitting around, you might say, but I've had a lot of hardships, a lot of problems, financial problems, and, of course, the SBA still has a lien on all my property owned, et cetera.

I do think—in closing, I do think as good as the SBA is, the amount of money they waste—I understand there's very few of us in the United States they haven't settled with. Why they haven't settled—I have given all kinds of proposals. Most of them have been in Washington, DC that I've talked to whenever I've made a proposal. They've all retired. I mean the SBA—they didn't retire.

Mr. WYDEN. You and the debt outlasted everybody.

Mr. GELINSKY. Yes. I really spent 21 years, and I do think there are problems in the SBA, and the Federal department, and the Justice Department, why they keep having attorneys—why these people—attorneys, letters, do this, do that, which I do everything they tell me. And I'm not trying to beat them. I mean, I'm trying to get an agreement in—January 1. This is the 21st year. And there has to be something to happen this year.

They just waste too long a time trying to set up debts which cost the taxpayers money, attorney fees, court costs. I've got them all. Appraisal on the houses, my house, my property, and my debt just keeps mounting, and mounting, and mounting. It's unbelievable.

Mr. WYDEN. Tell me, Mr. Gelinsky, did you call my office or any other——

Mr. GELINSKY. I've been to your office. I got absolutely no results. I was in your office in The Sunflower at about—I would say 3½ years ago. The Sunflower then was there.

Mr. WYDEN. So, let me go back and look at this again because I spend—my office spends a lot of time trying to sort through these kinds of things and with some success. Let us see what we can do to try and be of help.

I can understand nobody wants to have something like that hanging over your head for years and years.

Mr. GELINSKY. It's a long time.

Mr. WYDEN. We'll work with you and if you would, on your way out, see those two staff people right over there—Mr. Weast and Mrs. Buel, if you could stop and talk with them I want to get some more information, find out what all you've been doing, and what has happened since you came to see us.

Mr. GELINSKY. Thank you.

Mr. WYDEN. OK. The gentleman there.

TESTIMONY OF RUSH KOLEMAINE, MEMBER, CITYWIDE COORDINATING COUNCIL, PORTLAND, OR

Mr. KOLEMAINE. My name is Rush Kolemaine. I live on Quincy Street, city of Portland.

I sit on a number of the boards in communities, in and around the city of Portland. For the last 3 years, I have been a member of the Citywide Coordinating Council.

I have participated in the budget advisory process in reviewing all the budgets in the city.

It was very hard a year ago when our mayor, Mr. Clark, was campaigning, and pointing out to people, there are many resentful people in this area—comes in small business sector.

I am very disappointed to see today that Mr. Reagan is working on removing many of the Block Grant Programs that helped sustain this community through severe hard times the past 4 years.

And turning around and sending a death blow to one of the few resources that are still remaining to the small businessman of this area. Without some means of support such as this available through the SBA, I do not know where the small businessman who wishes to expand, can go.

Mr. WYDEN. Thank you, and thank you for coming.

We have another one of our witnesses here at this time.

Mrs. Margaret R. Van Thiel, TVT Die Casting & Manufacturing of Tigert, OR.

If Mrs. Thiel would come forward that would be helpful.

Mrs. THIEL. I am Mrs. Thiel.

Mr. WYDEN. Mrs. Thiel, we will make this full statement part of our hearing record, if you could just summarize for us your key kinds of points and then any suggestions that you might have on how to make SBA work more efficiently, that would be helpful.

Mrs. THIEL. OK.

TESTIMONY OF MARGARET R. VAN THIEL, TVT DIE CASTING & MANUFACTURING, INC., PORTLAND, OR

Mrs. THIEL. We have been in business for 10 years and over that period of time we have obtained two SBA loans, and we feel that they were very instrumental in helping us grow.

And we were able to purchase more equipment. We have been able to stay competitive. The market has changed, and because we started the business with just ourselves, and fairly undercapitalized, we would not have been able to grow and stay current with the trends today without the help of the SBA.

Mr. WYDEN. What do you think we might do to make the SBA work more efficiently?

We face terrible, horrendous Federal deficits and we have got to find ways to economize and make the program run more efficiently.

With your experience with the agency, what do you think we might do to pull that off?

Mrs. THIEL. Well, as far as my husband and I are concerned, they have been very efficient with us, and we have not noticed any duplication of efforts or anything, so we feel that it has already been efficient as far as our connection with it.

Mr. WYDEN. In terms of your own experience, what was your situation with the private banks, in obtaining capital elsewhere?

Mrs. THIEL. They were very conservative; they did not want to loan us the amounts that we needed to purchase large pieces of equipment.

The first machine that we bought with our SBA loan was a die casting machine, in the amount of $150,000; and the banks did not want to consider this large amount.

The second loan that was secured—again, we wanted to purchase some rather large pieces of equipment, expensewise, and we really researched several banks at that time. That was just recently, last year; and some leasing corporations; and they were all willing to listen to us, but then they all wanted to say no.

Mr. WYDEN. Well, thank you. I very much appreciate your coming, and we are very anxious to hear of personal experiences like this.

Thank you.

[Mrs. Thiel's prepared statement, with attachment, follows:]

PREPARED STATEMENT, WITH ATTACHMENTS, OF MARGARET R. VAN THIEL, TVT DIE CASTING & MANUFACTURING, INC., PORTLAND, OR

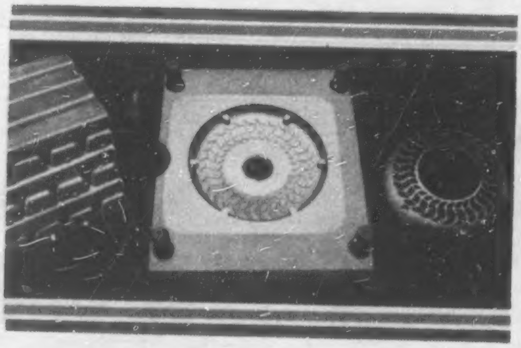
Ten (10) years ago in October TVT Die Casting was established as Tom and Margaret Van Thiel doing business as dba TVT Products. We started out with two (2) Zinc die casting machines, various support equipment, two (2) employees, a small customer base and minimal capital. The business continued to grow with the addition of an Aluminum die casting machine and in July of 1978 we were incorporated. In the Fall of 1979, in order to meet the continuing demands of the die casting industry on a competitive basis, funds were sought for new equipment purchases. Our first SBA loan was secured in the amount of $480,000.00. These funds enabled us to purchase a new 500 ton Aluminum die casting machine which allowed us to compete in a changing high technology market. The funds also allowed us to move into new larger facilities needed for our expanding business. At that time, we were active in producing both Zinc and Aluminum die castings and had nearly fifty (50) employees.

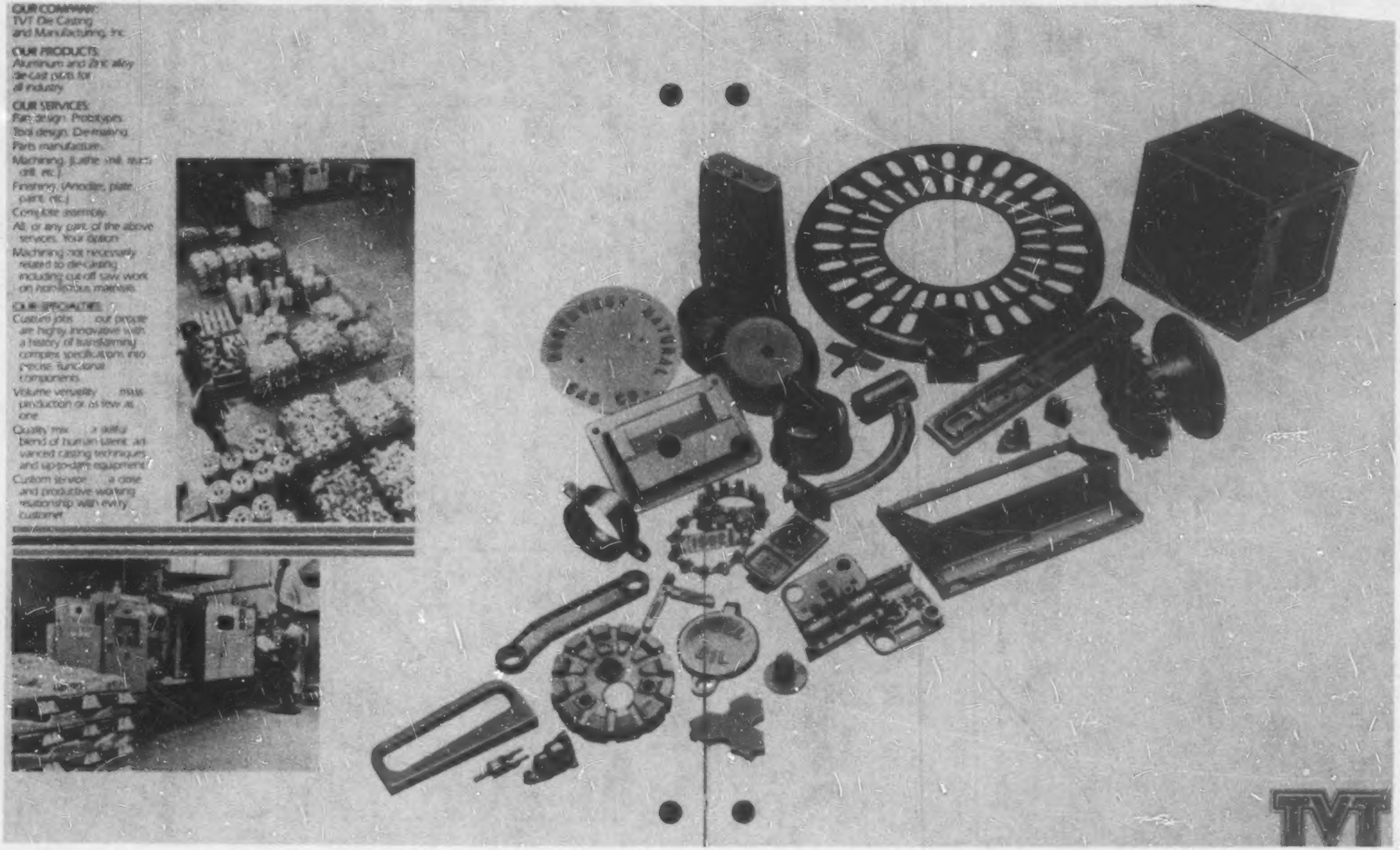
In May of 1984, after withstanding two (2) years in a difficult economy, we found ourselves again in a changing market. Customers were looking for a die casting that was completely ready for its end use. That necessitated the addition of equipment to provide these services and remain competitive. Additional capital was needed and the banks and leasing outlets were being very conservative because of the fluctuating economy, so we again turned to the Small Business Administration. With the help of the United States National Bank of Oregon, we were able to secure funds in the amount of $400,000.00. We allocated the funds for debt services to retire our existing SBA loan, working capital, and most important, the addition of some new equipment. Our main purchase was a machining center that gave us the capability to machine our die castings holding close tolerances. The addition of the machining center has been effective in creating new business. Our past experience in casting, machining, pre-finishing, painting and plating along with total in house control will help keep our corporation up front in manufacturing.

Operating a small business has many challenges as well as rewards. The Small Business Administration has played an important role in helping us realize the rewards of managing a successful business.

TVT

CUSTOM DIE-CASTING & MANUFACTURING SPECIALISTS





OUR COMPANY:
TVT Die Casting
and Manufacturing, Inc.

OUR PRODUCTS:
Aluminum and Zinc alloy
die-cast parts for
all industry

OUR SERVICES:
Part design. Prototypes.
Tool design. Die-making.
Parts manufacture.
Machining. (Lathe, mill, turret, drill, etc.)
Finishing. (Anodize, plate, paint, etc.)
Complete assembly.
All, or any part, of the above services. Your option.
Machining not necessarily related to die-casting including cut-off saw work on non-ferrous materials.

OUR SPECIALTIES:
Custom jobs our people are highly innovative with a history of transforming complex specifications into precise functional components.
Volume versatility mass production or as few as one.
Quality mix a skillful blend of human talent, advanced casting techniques and up-to-date equipment.
Custom service a close and productive working relationship with every customer.

ALLOYS

COMMONLY USED* IN TVT DIE-CASTINGS

ALLOY	NOMINAL COMPOSITION					MECHANICAL PROPERTIES			CHARACTERISTICS	APPLICATIONS
	ALUMINUM	COPPER	MANGANESE	SILICON	ZINC	ULTIMATE STRENGTH (1000 PSI)	YIELD STRENGTH (1000 PSI)	ELONGATION IN 2" (%)		
ALUMINUM										
No. 380	87.5	3.5	0.10	9.0	2.0/3.0	48	24	3	Excellent castability, mechanical properties and finishing characteristics.	Gear Cases, lawn mower housings and air brake parts are typical uses. Also electronic and computer components.
No. 384	84.2	3.8	0.10	12.0	1.0	47	25	1	Excellent pressure tightness, machinability and surface appearance.	Ideal for parts that require surfaces with good appearance and good wear.
No. 343	89.4/91.5	.5/.9	.1	6.7/7.7	1.2/1.9	35	20	6	Excellent corrosion resistance and surface wear.	Typical uses are pulleys, instruments, electronic and electric appliances.
No. 360	88.3/89.5	0.6	0.4/0.6	9.0/10.0	0.50	46	24	3.5	High strength and superior corrosion resistance.	For outdoor and marine use, electronic and computer components.
ZINC										
No. 3	4.0	0.1	.025/0.05		95.9	40		5/10	High strength plus excellent ductibility, machinability and finishing characteristics.	Popular usage is low cost, intricate parts requiring a plated or polished finish.
No. 5	4.0	1.0	0.03/0.06		95.0	45		3/7	High tensile strength and hardness.	Commonly used for low cost, intricate parts where hardness and strength are necessary criteria.

*Other aluminum and zinc alloys also used.

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Mr. WYDEN. Mr. Steven A. Gaines, Contractors Bonding Insurance Co., Seattle.

We will make a copy of your prepared remarks a part of our record, Mr. Gaines, and if you could just highlight some of your principal concerns in the interest of time, that would be helpful, and please proceed.

Mr. GAINES. I am handing up the prepared copy.

TESTIMONY OF STEVEN A. GAINES, PRESIDENT, CONTRACTORS BONDING INSURANCE CO., SEATTLE, WA

Mr. GAINES. Good afternoon, Mr. Chairman.

I am pleased to be here.

My name is Steven Gaines, and I am president of Contractors Bonding and Insurance Co., which is abbreviated CBIC.

We are the largest writers of SBA guaranteed bonds in the Northwest, and I will refer to the SBA Guaranteed Bond Program, as SBG.

Mr. WYDEN. If you could, get a little bit closer to the microphone, and speak up. I know a lot of our audience will be very interested in these issues. I know they want to hear you.

Mr. GAINES. Is that better?

Mr. WYDEN. Yes.

Mr. GAINES. All right.

About 99 percent of the premiums of CBIC are derived from bonds in the States of Washington, Oregon, and Alaska; 29 percent comes from the State of Oregon, and 33 percent of the SBG Program come from the State of Oregon.

We wrote 509 bonds in 1984 in the SBG Program for a total contract price of about $22 million; and our average contract price was about $43,000. What that means is that compared to our competition in the SBG Program, we cater to the very small contractor.

These are the contractors most likely to be hurt by any cuts in the SBG Program budget.

We think the SBG Program is vital to the Northwest in bringing back the economy, the construction economy especially.

Small and large contractors of the Northwest are dependent upon the SBG Program, because they have to have bonding in order to get jobs.

For instance, virtually all public works contracts in Washington and Oregon require bonding, and all Federal projects governed by the Miller Act require bonding.

Also State and local governments need the SBA Program to ensure a pool of minority contractors to fill minority hiring requirements.

An example of that is that Federal regulations require all contractors who have Federal or federally assisted contracts over $10,000 with the Federal Government to meet guidelines for equal employment opportunities and affirmative action.

There are equal employment opportunity and affirmative action guidelines that have to be met in the State of Washington. Public works contracts are subject to goals of the Office of Minority and Women's Business Enterprises, and they can reject low bids, and even require that the bidding process be totally reopened.

Similarly, in Oregon, legislation gives the individual agencies the authority to deal with affirmative action, and even to the extent of agencies in Oregon setting aside contracts of under $50,000 solely for minority people.

So, it is not only the contractors that need the SBG program, but State and local governments. Also, because the Federal Government has this overlay of affirmative action requirements and EEO requirements that are built into the system, and it would be pretty hard to try to move those things out of the system.

It is important to know that the SBA just guarantees the bonds. The sureties actually underwrite and deal with the contractors so that it is really a private sector program.

I would think that if the Reagan administration really took a close look at this thing, they would support this kind of a thing.

This is a private sector program. Not only is it a private sector program, it does not cost the Government one penny. In fact, if anything, it saves the Government millions and millions of dollars.

Mr. WYDEN. Excuse me for interrupting you.

Explain that to me—how this does not cost the Government any money, and how there are actually savings as a result.

Mr. GAINES. Well—I will summarize it somewhat.

But, basically, there is a summary by the SBA that summarizes over the last 8 years the claims activity and the fees activity.

Although the private sureties underwrite the program, the SBA receives a fee.

SBA first of all said that sureties can only charge a maximum of 1.5 percent of the contract amount; and then the Government itself takes 0.5 percent of the contract amount as a fee.

Then, of the amount that the surety takes, which is a maximum of 1.5—the Government takes 20 percent of that, which right now is 0.3 percent.

So, totally, right now the Government is taking 0.8 percent of the contract as the fee, for supervising the program.

They have collected fees during the entire 14 years of the program. During the last 8 years, the study that we pulled off the computer run showed that they received fees of about, I think—about $75 million.

And in taking that $75 million, they utilized that to offset losses that they had, and losses—I am sorry, I have not gotten these added.

Will you give me a second?

[Pause].

Mr. GAINES. The fees were $75 million. They paid out losses of $138 million so that there was a net of $63 million that the Government had to pay—that over 8 years amounts to about $8 million a year.

But against that, you have to apply a couple of things. First of all, a lot of jobs were created, and the market was loaded up with people who otherwise could not have been in the market.

Now, in Portland, from the Government's standpoint, what happened was the Government saved an enormous amount of money because of what they call bid spread.

GAO did a study in 1977, and it shows that there was a bid spread betweeen the lowest bidder; when an SBG program person got a contract, they were the lowest bidder.

The second lowest bidder, they then looked at—what that bid was, and that is what they call bid spread. And the spread between those two people in these situations was 9.25 percent on the average, so that this study concluded that there was a total savings of $918 million, almost $1 billion in savings, nationwide.

And that is how the Government saves money. Not only is it only putting out $8 million a year, which is very small to the Federal Government, it is getting back an awful lot more—$918 million, according to the study.

There have been other figures—as an example, in recent testimony, Senator Weicker indicated that—and this is testimony for Senate bill 408 on March 7, 1985—the SBA has identified 504 million dollars' worth of direct cost savings.

And that particular figure takes into account the administrative costs incurred by SBA.

The previous figure that I gave—$918 million—did not include necessarily the administrative costs of the agency.

So, as of a couple of weeks ago, the SBA had identified direct savings of $504 million.

One other thing that is interesting: There was a recent study done in 1985 that covered 1,000 contracts and in that study they showed the bid spread now appears to be 11.7 percent.

The bid spread in the 1977 study showed a big spread of 9.25 percent, and that is a big increase, say, a 20-percent increase, or a 25-percent increase. The obvious analogy, if you look at what is to happen in the future, is the bid spread is getting bigger and, therefore, the savings to all Government agencies will be bigger if the SBG Program is continued.

Applying the 1977 analysis figures specifically, if you take the 8-year study that I referred to previously, you can see that there were 3,719 bonds written in Oregon, for a total contract price of $216 million in the State of Oregon.

And if you take the 1977 analysis and apply it to those figures within that period of time, the bid spread, how much you might save the local governmental agencies and the State governmental agencies, it appears that the public bodies received a savings of at least $7 million in building cost over the years.

Finally, I would like to hit a couple of points. As I mentioned earlier, it opens up the economy. It opens up the economy to those who may not otherwise have been able to break into the economy.

It may be available only to a small segment of the population. I think David Stockman has said something on that, in his testimony, but that is exactly the purpose of the program.

The program is supposed to be targeted at a small group of people who are normally in small business enterprises, to enable them to get into the mainstream of commerce, and that was the intent of the legislation.

It also generates additional revenue that we cannot compute because there are—when you have more people in the contracting market—license fees, for example, that are not predicated on exactly how much a person does in business.

It is apparent that an increased number of contractors in the market increases revenue to the governmental agencies, and more importantly it heightens the competition and lowers cost and stimulates traditional construction, and I think that is exactly what the free market economy is all about.

To sum things up, we would not like to see an across-the-board cut.

If you reduce the SBG Program, you just reduce the ability of the Government itself to reduce the deficits and then we recommend full authorization of the SBA.

Mr. WYDEN. Just one question: The timber industry—the Western Forestry Industry Association—talked earlier about the question of making the kind of services that you provide available to the timber industry.

Is that something that you would be sympathetic to doing?

I understand that there are some technical changes that would be needed to do it. If the technical changes were made, would you be interested in doing that?

Mr. GAINES. Yes.

We are interested in looking at that. We have talked about it on several occasions with people in the timber industry.

People in the timber industry have come to us, and we have not been able to do anything for them, and I think if there were some technical changes made, there would probably be some way to help them.

[Mr. Gaines' prepared statement follows:]

PREPARED STATEMENT OF STEVEN A. GAINES, PRESIDENT, CONTRACTORS BONDING AND INSURANCE CO., SEATTLE, WA

Good afternoon, Mr. Chairman. My name is Steven A. Gaines and I am President of Contractors Bonding and Insurance Company ("CBIC"). I appreciate this opportunity to appear before you in support of the Small Business Administration's Surety Bond Guarantee Program ("SBG Program").

CBIC is a multiple lines Washington domicilliary insurance company, which currently writes only surety insurance. CBIC specializes in contractors' license bonds and SBA guaranteed bid, payment and performance bonds. CBIC is presently licensed as an insurance company in eight states. However, over 99% of its written premiums are derived from the execution of bonds in the States of Oregon, Washington and Alaska. Approximately 29% of all direct written premiums of CBIC in 1984 was derived from the State of Oregon.

CBIC is the largest writer of SBA-guaranteed surety bonds in the Northwest. Eleven percent of the bonds we provide are guaranteed by the Small Business Administration. Over 33% of all premiums written by CBIC in the SBG Program during 1984 was written in the State of Oregon.

For the government fiscal years 1981-1984, the SBA indicates the following statistics for CBIC:

Year	No. of Bonds	Total Contract Amounts Bonded	Average Amount of Bond
1981	552	$27,132,000	$49,152,17
1982	377	$20,724,000	$54,970,82
1983	442	$20,606,000	$46,619.90
1984	509	$22,127,000	$43,471.51

During all of the above fiscal years, CBIC has been the largest writer in the Northwest by number of bonds. During the last three fiscal years, CBIC has been the largest writer by total contract amount bonded as well. Compared to our largest competitors, we not only write the most bonds, but our average bond size is smaller. In fiscal year 1984 for example, our average bond size was only about one-half of those of our competitors. What this means is that, more than any other surety in the Northwest, we cater to the smaller contractors -- those that probably stand to be hurt the worst by any diminishment of the SBG Program.

We believe that the SBG Program is vitally important to the Pacific Northwest and that Congress would be making a grave error if it were eliminated or reduced in scope.

The small or minority contractor is often completely dependent on the SBG Program for the bonding necessary to keep working. All public works projects in Washington and Oregon (with the exception of some very small jobs) require bonding. All federal projects governed by the Miller Act require bonding. And, of course, many private owners require bonding to protect themselves. Without bonding, most contractors cannot stay in business, and without the SBG Program many small or minority contractors cannot obtain bonding.

State and local governments need the SBG Program to insure a pool of minority contractors big enough to meet minority hiring requirements. Federal regulations require all contractors and subcontractors which hold any federal or federally assisted construction contracts in excess of ten thousand dollars to meet guidelines for equal employment opportunity and affirmative action. All Washington public works contracts are subject to meeting the goals of the Office of Minority and Womens' Business Enterprises, even if this means rejecting the low bid or even completely rebidding the job. In Oregon, agencies are allowed to engage in affirmative action plans, even to the point of setting aside contracts under fifty thousand dollars for minorities.

The SBA merely guarantees the bonds; it does not underwrite or administer them. The actual bonding is done by the private sector. Companies like CBIC which specialize in SBA bonds develop expertise in underwriting smaller or newer enterprises, expertise which reduces the risks of loss on the bonds and assures that the beneficiaries of the program are viable enterprises capable of successfully performing the work for which they bid. The SBA does not guarantee one hundred percent of the bond amount. Therefore, the bonding companies have incentive to underwrite as carefully as possible under the circumstances. This allows public and private owners the benefits of smoothly completed projects, while at the same time allowing smaller contractors to participate in a wider range of construction activities.

It is important to note that the SBG Program does not cost the federal government a cent; it actually saves the government a tremendous amount of money. Let's look at the facts (derived from a state by state summary, developed by the SBA on December 17, 1984 covering the period from December 1976 to date):

- Over the past 8 years, SBA has guaranteed approximate 116,000 bonds worth over $9.4 billion.
- Over this same period of time, SBA paid out claims amounting to $138 million.
- On these guarantees, SBA collected fees of approximately $75 million (assuming an average fee of .8% of contract amount).
- Thus, the initial out of pocket expenses to the government was approximately $63 million, or about $8 million per year.

For this minor, $8 million annual investment, the SBA has generated substantial savings to the federal treasury. The SBG Program has allowed numerous small and minority contractors to participate in contracts that otherwise would be unavailable to them (by statute, the guarantee can only be extended if the contractor can demonstrate that it otherwise could not obtain a bond). Any time one of these contractors wins a federal contract, the government saves the difference between the successful and second-lowest bids. An analysis made in 1977 by the Government Accounting Office of the bid spread between the award prices and the bids of the record lowest bidders on all bonded nonnegotiated publically financed contracts guaranteed by the SBA showed that: (1) 38.7% of all SBG Program contracts are publicly financed and awarded through the formally advertised process; and (2) the average bid spread was 9.25%. It has been estimated from the foregoing study that this bid spread savings has approximated $918 million in the 14 years (1971-1984) of the program's existence. This, of course, would more than eliminate the $8 million annual investment and the cost of supervising what basically is a privately-run program.

A study of 1,000 contracts completed in 1985 indicates that the bid spread has risen to 11.7%. This means that savings generated by the SBG Program should be increasing.

Even after subtracting out the total program costs, the SBG program is highly profitable for the government. As indicated by Senator Weicker in hearings on S.408, March 7, 1985:

> Since the inception of the SBG Program in 1971, 166,132 surety bonds have been guaranteed, permitting the award of $12.9 billion in contracts.
>
> After deducting program costs, including losses, SBA can identify approximately $504 million in direct savings (difference between the bid price of the small business participant in the SBG Program and the next low bidder), and helped thousands of small construction contractors to enter the federal, state or local markets.

Applying the 1977 analysis to Oregon, where for the eight year period from December 1976 to December 1984, the number of bonds written was 3,719 and the total contract amount was approximately $216,000,000, the savings in Oregon alone to public bodies was over $7 million.

One must not overlook two other valuable aspects of the Surety Bond Guarantee Program. First, the program clearly opens up our great American economic system to those who otherwise could not participate. Some, including OMB Director David Stockman, have argued that the majority of businesses do not need SBA assistance. That could be true, but it misses the point. The SBG Program was not developed to be available to all businesses; it was developed to fill a narrowly defined need for those small and minority busi[illegible] which otherwise could not participate in our economic system. The program was purposely developed to meet a particular, narrow need. Naturally, not everyone needs or uses it.

Second, the program clearly generates additional revenue for federal, state, and local governments. How much is difficult to determine. License fees, payroll and certain other taxes must be paid regardless of how much business is successfully generated. Thus, simply allowing more contractors in the industry itself increases federal, state and local revenues. In addition, to the extent that heightened competition reduces costs and thus stimulates additional construction, the pie is enlarged and governments again increase their take.

Some have argued that all programs should take an accross-the-board reduction in their levels of authorization and appropriation. This may make sense with regard to programs which cost the government money. It makes no sense, however, to reduce the funding level of programs which actually save the government money. If you reduce the SBG Program, you simply reduce its ability to help reduce the federal deficit.

In conclusion, Mr. Chairman, let me again express my appreciation for this opportunity to appear before you today. I am very concerned about the future of this valuable program and I encourage the Committee to reauthorize it at the full level.

Thank you.

52:Statement.SAG

Mr. **Wyden**. Well, thank you and thank you for your views here today.

Are there others who would like to speak today?

We will take a couple of more. Come forward, and just—if you would, we need names and addresses, and businesses.

TESTIMONY OF ALLEN ZELL, INDEPENDENT BUSINESSMAN, PORTLAND, OR

Mr. **Zell**. My name is Allen Zell. I live at 3333 Southwest—in Portland.

I am a small, independent businessman, and run an advisory service. I also do a lot of work for SCORE and ACE.

I just want to address a couple of programs and comments you made about cutting down, where it is cut down—and some other things that are very important.

Many things SBA does besides helping people go into business is sometimes keeping people from going into business who should not go into business.

And some of the savings that you do is counseling those people that, first, they do not misspend their money, which is expensive for everybody.

Second, it is that many of those people who come also turn around to what they were doing and maybe because of their exposure to this type of thing understand that the business that they are in is better.

The third thing that I probably think is that if you wanted to save money, cut down on paperwork, and the paperwork for the small businessman either through the SBA or all the other Government agencies are so fantastic, that the cost of handling a piece of paper is far more than any deficit by our bad loans.

Mr. **Wyden**. Give me an example.

Mr. **Zell**. To give you an example is the fact that sometimes people will have to—if you just took the tax problems, of simplifying tax, going to another whole other story, but just simplifying the bookkeeping that a person has to keep track of and what he has to go through or somebody has to go to a Government agency, the amount of paperwork is just phenomenal; and it is so expensive, and much of it would probably not have to be done, but so much of the paperwork is "CYA" and the person asking for that paperwork just because they want to be protected; and I think that there ought to be some entrepreneurship in Government, and I think if you took many of the different levels and got it down to, say, took the people out of Washington and out working with the people, I think you would be far better off than generating paperwork and generating some of the other things that people have to do to justify their jobs.

Mr. WYDEN. Well, Mr. Zell, we have heard that suggestion earlier today, and I think your contributions to the small business sector and community are well known, certainly to me, and I just appreciate your coming, and sharing your views.

Thank you.

The gentleman on the left, I think, was interested in coming forward.

Yes, sir, if you will just state your name.

TESTIMONY OF RANDY WINSTON, JIM WINSTON & SONS, BATTLE GROUND, WA

Mr. WINSTON. My name is Randy Winston. I am with Jim Winston & Sons, excavating. We are an 8(a) firm, based in Battle Ground, WA.

Mr. WYDEN. Thank you.

Mr. WINSTON. Across-the-board cutoff of the Small Business Administration Program obviously will have devastating effects to small businesses, in particular if you are small businesses who are minority businesses and who participate in the 8(a) Program.

And I know that you, Ron, know that through the efforts of Parren Mitchell, the Surface Transportation Assistance Act has given my business access to the construction marketplace more now than we have ever had in the past.

And with projects coming up all over the country, this has made the contracting—the 8(a) contractor, giving him an opportunity to bid jobs that may be out of his particular territory, and maybe contract, for example, we can bid in California without having to go through a tremendous certification process.

An 8(a) contractor, of course, would be certified to work anywhere in the country, which has made the process easier for us as a whole.

Also, the 8(a) Program has helped us in the fact that it has created job opportunities—we will be first—actually, we were the first contractor to begin work during the restoration efforts in Mount St. Helens, the first one there and the last contractor to leave.

It was a tremendous economic boost for our firm; we were there for approximately 7 months.

And obviously the purpose of the program is to take a contractor and minority business and take him through the steps necessary to get him to compete on a par level with other construction companies.

And to abolish that, that access, that opportunity—definitely would be devastating to the entire economy because, as minority business people, we are more inclined to hire other minority people. The employment situation for minorities nationwide is devastating.

So, to say again, to abolish that agency would cause a tremendous economic tragedy.

Mr. **Wyden**. Thank you for a very excellent, very clear statement. I tell you the truth, I am particularly appreciative of this attitude of extending an opportunity after you have been given an opportunity, and I think it is very impressive. I thank you, sir, for coming.

The gentleman there.

[Pause.]

TESTIMONY OF MURRAY McBRIDE, MANAGEMENT CONSULTANT, PORTLAND, OR

Mr. **McBride**. I am Murray McBride, and I am a management consultant, and also a part of the West, and I want to tell you——

Mr. **Wyden**. What is your address, sir? Do you live here in Portland?

Mr. **McBride**. 700 SW 48th Drive, Portland, OR 97221.

Mr. **Wyden**. Great.

Mr. **McBride**. I want to thank you for making this possible. I think it is tremendous. I think there is a lot of small business people who really appreciate what you are trying to do.

And I want to give you some background first as to why I am here. I spend a lot of time on SBA seminars. I do everything I can, anytime and anyplace for SBA; they do so many seminars, and I have done the success and failure factors and the marketing ones. I will go anyplace and do them.

Consequently, for the last 10 years or so, I have sat and watched these people—you make it or you lose it; and I think that the experience I have had—it is a beautiful example.

I thought it was a cinch to go into small business. I was in management consulting so I said I thought I would buy a travel agency, and run it on the side and make $1 million.

Well, I bought one—the dumbest thing I ever did. I almost lost my shirt. The stuff was running out like water out of a horse—called "money."

So, I said, "I have got to get rid of this thing."

I was fortunate, and I got rid of it. About that time, my son-in-law comes up, and says, "I got a great idea. Video-visual, multimedia, slides, tapes, all these great things!"

So, I got into that. Now, that's a winner! The interesting thing is, without SBA—without our ability to get help from SBA, we would not have made it, and I will tell you what did it, was the guaranteed loan.

See, we didn't get it from the SBA direct. We got it on the basis of the guaranteed loan.

You can get a direct loan, and you go for the guaranteed loan. There is a lot of people over here that need that sort of thing.

I will tell you the one thing—and I am going back to what you said—when you said earlier this morning, Congressman, and I picked up and I was making notes like mad—great stuff!

What are we trying to do?

You said: "If the Federal Government would stop mandating, and if they would let the SBA start facilitating," you got it.

Here's how I see it. You know these special groups. Someone in Congress says: "I think we ought to give all of this special group $5 million."

Well, all that special group picks up that message, and the next morning, they run over to SBA and say:

"He said it. Give us the money."

You know—from nothing!

Now, you just don't go into business like that. It takes 15 years to learn how to run the business. I know you're skilled, but that has nothing to do with skill.

Allen Zell, talking about selling and management. Oh, I tell you right now, these people go out and give it away for nothing and they know what they are talking about, and they talk to these people—and it takes them 15 years to learn how to run that thing.

But the mandating thing from Congress—those guys back there—"Oh, let's give it away; let's do what it said." And everybody sitting out here in Portland, OR—and said, "55,000 telephone calls—give us ours, give us ours."

You can't do that, and that is what is screwing up SBA. They are not allowed to do what they ought to do like a banking system.

And you know, you are talking about the banking system. How do you like that big one in Boston, huh? All the publicity they are getting about all the mistakes they made? They forgot to make out the reports, right?

OK. It is the same story. You know, so these guys have made a few mistakes. I have got a packet here they handed out to the congressional group, this SBA group right here. I tell you this has got enough information right now to tell you that, sure, we made a couple of mistakes, but look at the wins we made; look at the people we have put in business who pay taxes.

I want to tell you right now; we took our people over to SBA out in Indian West—we have got 20 people employed out here; they are paying taxes, and have we got some hot people! We are—you don't bring them in there for $2 an hour, I'll tell you—you are bringing those people, and they have got professional people, all these television cameras; we've got the same stuff they have got in Hollywood.

It doesn't make any difference. Every time I turn around you are spending another million trying to get ahead. We opened up a spot in Santa Clara just simply on the basis of the guts of the people that we—

We grow it. We are going someplace. We have got over 40 people now—two cities. We are going for five more cities. It may take another 20 years to do it, but with SBA we can make it.

So, what do you want to do? The best thing you can do is get Congress—tell those guys to shut up and let the SBA operate the way they are supposed to operate.

You said something—you said they are too busy handling special directives from the U.S. Congress, from those guys in Washington.

Now, we have got an SBA set up; they will facilitate; they know how to handle and talk to their community; they are at the local level.

You have heard SCORE over here say, let's go with the Department of Commerce—no way!

Why? Because they don't have enough offices. What does that mean? They don't have enough Ron Wydens who are willing to come out into the battlefield, sit down and talk to the troops and say: "How is it?" That's how you find out—and they don't do it that way, see.

So, you can facilitate it. They will develop the resources. They know what—I want to tell you this SBA office we have got here in this region is unbelievable. I mean, we are out working in the field; we have got 1,000 of us guys. We love it. We do it for nothing. Just give us a chance! But don't kill it! Get away from the direct loan? I'd say, "Hey, you all leave it alone. Just don't tell them how to make it. Let them be a banker; they are good bankers; they know how to make loans."

But get off their backs and stop dictating from the big guy up on top who is supposed to be the king—leave us alone. Let us make a decision; we are not dummies.

That's all I've got to say. [Laughter and applause.]

Mr. WYDEN. I think you pretty well cleared up the entrepreneurial curve. [Laughter.]

Incidentally, are there others after this gentleman, because we are—we probably are in a little bit of a problem timewise.

TESTIMONY OF ROGER CRABBS, MANAGEMENT CONSULTANT, BEAVERTON, OR

Mr. CRABBS. Mr. Congressman, I am Roger Crabbs, 2371 NW 153d in Beaverton. I find it a little hard to follow my friends—Allen Zell and Murray McBride, and particularly when Murray gets carried away.

I, too, am a management consultant—have been with SBA, associated with them for years—a professor of business. I have been involved in a program called the Small Business Institute and Allen and Murray have been involved in that as well with me.

For 12 years I have been consulting small businesses under the advocacy of the SBA, and I want to say that our SBA District Office in the State of Oregon is probably one of the most effective offices I have seen.

I have spent time both at the SBA headquarters in Washington, the regional headquarters in Seattle, and our district office, and I think if we would do, as Mr. McBride is advocating, and facilitate and advocate at the local level where we are working hands-on with the small business person, we will see a vast improvement and an opportunity to reduce costs.

For instance, it has been my experience that if we do an adequate job of counseling and providing management expertise for the small business person, costs on the Government will be reduced tremendously, oftentimes by not requiring a loan—certainly, by being able to perform on their loan.

Mr. Zell mentioned another problem that I have found to be a critical problem with small business persons, and that is the Government regulation and paperwork that is imposed upon them.

I can remember a few years ago being involved in the White House study on small business paperwork. We discovered in the Northwest, particularly in Oregon, the impact on our small businesses of Government paperwork was incredible. Anything we can do to reduce that, I think, would enhance business and reduce costs.

So, I am advocating enhancing our managment assistance program as a way to reduce costs of the small business program and turning out better equipped small business persons.

Thank you for giving me the opportunity to share.

Mr. WYDEN. Well, thank you and thank you very much, and you are absolutely right, Murray is a tough act to follow, but you did it very, very well. I am appreciative of your coming, and you are excused.

I think having sat here for almost 3½ hours or thereabouts it is pretty obvious to all of us that small business is no academic issue for us here in Oregon, and it is really a matter of economic survival.

In my view, it is really the key to Oregon's future; and it is a very bright future as we look at ways to help small businesses prosper and help small businesses grow.

To tell you the truth, I have gotten a number of very good ideas and very good suggestions today about how we can take steps and let small businesses grow and prosper and I think what has been important about this is that all of you have really tried to focus on how we can do better and how we can do more with less.

I don't think that anybody knew that I was going to ask virtually everyone here what their ideas might be to help stretch our resources for the future.

You have come forward with a lot of good and very sensible ideas, and to tell you the truth, I think we have to try some new things; we have to try some new approaches.

Some of you here may be aware that just a few days ago Congressman Gephardt of Missouri and I introduced legislation that would allow those who had been unemployed for a substantial period of time, those who were structurally unemployed, to get a leg up on starting their own small businesses and this could be done under our legislation by allowing a very small number of States initially to begin pilot programs where unemployed persons could receive their benefits in a lump sum, to be able to start small businesses and start services; and we have heard a number of ways today where programs run by the Small Business Administration could supplement that kind of effort and could complement it.

For example, if an unemployed worker received his benefits in a lump sum, it could go to a SCORE consultant, someone that we have heard from today, or in that organization to get some help on how to start a small service and how to get a small business off the ground.

So, I think this has been very, very helpful. Chairman Mitchell was unable to be here today, but I can tell you that Chairman Mitchell is one of the very best listeners in the U.S. Congress and a great advocate for small business. We know that small businesses provide the vast majority of jobs in our State and because of your good ideas and your good suggestions. Now we know how to take additional steps in the future to ensure even more prosperity among small businesses and new opportunities for those who want to start small businesses and have not had that chance.

So, I thank all of you for coming and for very patiently sitting through our long hearing, and with that the House Small Business Committee is adjourned.

[Whereupon, at 1:30 p.m., the subcommittee adjourned, to reconvene subject to call of the Chair.]

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